

European Commission

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Response to European Commission Consultation Paper on generation adequacy, capacity mechanisms and the internal market in electricity

We appreciate that the European Commission starts the discussion on generation adequacy and capacity mechanisms on European level. The concern about security of supply has brought some Member States to implement capacity mechanisms. Because these mechanisms inadequate consider their impact on the internal market, we fear adverse effects for the European electricity market and the benefits of competition.

As we are market participant of the German-Austrian-Market, we answer the following questions with focus on this market area.

1. Do you consider that the current market prices prevent investments in needed generation capacity?

Current market prices and spreads do not allow covering full costs and are not suitable to contribute to the integration of renewable energies. For investments the expected evolution of market prices is important as well as a stable regulatory environment.

2. Do you consider that support (e.g. direct financial support, priority dispatch or special network fees) for specific energy sources (renewables, coal, nuclear) undermines investments needed to ensure generation adequacy? If yes, how and to what extent?

Yes, for example the different network fees for generation units in Germany and Austria lead to a distortion of competition. In this field harmonisation is mandatory.

Another big impact results from the financial support of renewables as not reliable available capacity. However, the real problem is not the financial support or the priority of dispatch but the low operating costs. Because even if the financial support and the priority of dispatch is phasing

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out, the low operating costs will drive the wholesale prices down whenever the wind is blowing or the sun is shining. The financial support has simply brought forward the expansion of renewables.

3. Do you consider that work on the establishment of cross-border day ahead, intra-day and balancing markets will contribute to ensuring security of supply? Within what timeframe do you see this happening?

A reduction of market barriers and an increase of cross-border capacity would in principle contribute to ensuring security of supply. But due to the proposed development of renewables in all Member states, the problem itself cannot be solved.

4. What additional steps, if any, should be taken at European level to ensure that internal market rules fully contribute to ensuring generation adequacy and security of supply?

Due to the long amortization periods in the electricity sector a stable framework for the internal market is essential. Market intervention, restraints of competition and network congestion should be eliminated and adjustments of the framework well-considered and coordinated.

5. What additional steps could Member States take to support the effectiveness of the internal market in delivering generation adequacy?

The wish of some member states to guarantee security of supply on a national level does not fit to the idea of a European market of electricity. If regional generation adequacy problems are identified, a coordinated solution should be found. This can be the expansion of network capacity or a temporary competitive, technologically neutral and on an international level non-discriminatory capacity mechanism.

6. How should public authorities reflect the preferences of consumers in relation to security of supply? How can they reflect preferences for lower standards on the part of some consumers?

The expenditure to consider lower standards of security of supply for mass customers is disproportionately. For large customers demand side management should be honoured in the same way as an adjustment of production for generators. Thus, it is ensured that flexibility is provided in the most effective manner.

7. Do you consider that there is a need for review of how generation adequacy assessments are carried out in the internal market? In particular, is there a need for more in depth generation adequacy reviews at:

a. National Level

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b. Regional Level

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c. European Level

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8. Looking forward, is the generation adequacy outlook produced by ENTSO-E sufficiently detailed? In particular,
- a. Is there a need for a regional or European assessment of the availability of flexible capacity?
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 - b. Are there other areas where this generation adequacy assessment should be made more detailed?
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9. Do you consider the Electricity Security of Supply Directive to be adequate? If it should be revised, on which points?
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10. Would you support the introduction of mandatory risk assessments or generation adequacy plans at national and regional level similar to those required under the Gas Security of Supply Regulation?
11. Should generation adequacy standards be harmonised across the EU? What should be that standard or how could it be developed taking into account potentially diverging preference regarding security of supply?

With respect to the diverging preference regarding security of supply it is useless to harmonise generation adequacy standards. However, capacity mechanisms should only be implemented if steps to improve market functioning are clearly insufficient. They have to be competitive, technologically neutral and on an international level non-discriminatory. The costs of a higher level of security of supply have to be paid by those who benefit therefrom. In any case, it must be ensured that the European transmission grid is not affected by those, who have a lower level of security of supply.

12. Do you consider that capacity mechanisms should be introduced only if and when steps to improve market functioning are clearly insufficient?

Yes, we do. First of all, barriers that prevent the energy only market to generate the right investment signals – like the prohibition of peak load pricing for dominant undertakings in Germany – have to be eliminated. Due to the long amortization periods in the electricity sector adjustments of the framework should be well-considered and coordinated.

13. Under what circumstances would you consider market functioning to be insufficient:

- a. to ensure that new flexible resources are delivered?

Flexible resources are addressed by balancing and intraday markets. The former ensure enough flexibility by paying a capacity component.

- b. to ensure sufficient capacity is available to meet demand on the system at times of highest system stress?

Due to the high value of electricity supply for the European Union sufficient capacity to meet demand at times of highest system stress is mandatory. And due to the long time period be-

tween adequate investment signals and new capacity in operation the evolution of the capacity must be carefully observed in advance.

14. In relation to strategic reserves:

- a. Do you consider that the introduction of a strategic reserve can support the transition from a fossil fuel based electricity system or during a nuclear phase out?**

Yes, if steps to improve market functioning are not sufficient and if the strategic reserve is only an interim solution.

- b. What risks, if any, to effective competition and the functioning of the internal market do you consider being associated with the introduction of strategic reserves?**

It must be ensured that the strategic reserve does not affect investment signals of the energy only market, i.e. it is only be dispatched if supply and demand do not match. The provision of the strategic reserve should be competitive, technologically neutral and on an international level non-discriminatory.

15. In relation to capacity markets and/or payments:

- a. Which models of capacity market and /or payments do you consider to be most and least distortionary and most compatible with the effective competition and the functioning of the internal market, and why?**

A new market framework has to be designed in a way that it will be itself part of the internal market within the meaning of effective competition. In the long term it has to be assessed by the fulfilment of the following requirements:

- it delivers the right signals for an optimal dispatch (like the energy only market),
- ensures security of supply by setting the right investment signals,
- integrates renewables with low operating costs in a competitive manner,
- provides incentives for network expansion at critical points and
- allows to integrate targets like carbon reduction or nuclear phase-out.

We are convinced that these requirements can be most effectively achieved by a market design that is competitive, open for existing and new capacities as well as demand side management, technologically neutral, transparent and on an international level non-discriminatory. If a capacity mechanism is considered to be necessary as part of the new market design the required capacity should be centrally fixed to avoid overcapacity by taking statistical balancing effects into account.

- b. Which models of capacity market and /or payments do you consider to be most compatible with ensuring flexibility in a low carbon electricity system?**

see a.

- c. Are there any models of capacity mechanism the introduction of which would be irreversible, or reversible only with great difficulty?**

A new market design as described under a. – irrespective of whether capacity mechanisms are part of it or not – should not be limited in time because a stable framework is the only way to establish investment security. Therefore the question regarding the reversibility is obsolete.

16. Which models of capacity mechanisms do you consider to have the least impact on costs for final consumers?

see 15a.

17. To what extent do you consider capacity mechanisms could build on balancing market regimes to encourage flexibility in all its forms?

Balancing markets have a different target than capacity mechanisms. The former have to ensure equilibrium between electricity generation and consumption in real-time while capacity mechanisms are a further development of an energy only market to ensure generation adequacy. However, in the case of a strategic reserve there may be some organisational similarities enabling the introduction of a prequalification regime, e.g. regarding start-up times or the use of the same tendering platform. For comprehensive capacity mechanisms we do not see any advantage building on a balancing market.

18. Should the Commission set out to provide the blueprint for an EU-wide capacity mechanism?

We have doubts whether in the long term steps to improve the functioning of the existing market design are sufficient. Due to the complexity and the risks of a poorly designed new market framework we would appreciate if the Commission starts working on a European level to investigate the need and the design of a market framework for the future.

19. Do you consider that the European Commission should develop detailed criteria to assess the compatibility of capacity mechanisms with the internal energy market?

A new market framework has to be designed in a way that it will be itself part of the internal market within the meaning of effective competition. The criteria to assess a new market design should reflect the requirements as described in 15a. and its effectiveness (see also 15a.).

20. Do you consider the detailed criteria set out above to be appropriate?

No, criteria (3) has to be cancelled. We are convinced that if a capacity mechanism is necessary, this is caused by a high percentage of renewables with low operational costs. And as these renewables will remain in the system there will be no possibility to reverse the introduction of a capacity mechanism. Concurrently a stable market design is an obligatory condition for an investment with such a long amortization time.

a. Should any criteria be added to this list?

(1) d. Removing barriers that prevent the energy only market to generate the right investment signals – like the prohibition of peak load pricing for dominant undertakings in Germany or different network fees for generation units in Germany and Austria.

b. Which, if any, criteria should be given most weight?

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With kind regards

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