ROYAL NORWEGIAN
MINISTRY OF PETROLEUM AND ENERGY

Your ref	Our ref	Date
	13/188	7.02.2013

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

The Norwegian Ministry of Petroleum and Energy appreciates the European Commission's initiative to undertake a public consultation on generation adequacy, capacity mechanisms and the internal market in electricity. These are important issues for the cross-border trade and power exchange in Europe in the years to come.

In this letter we will address some of our current thoughts on the subjects discussed in the Consultation Paper. We are still in an initial phase on how the market will be affected and how we should act on this. We read with great interest the Commissions current thoughts on ensuring generation adequacy and security of supply in the internal market. We have also taken note of the International Energy Agency's (IEAs) report: "Securing Power during the Transition". We will follow the future discussion closely.

We have chosen not to answer directly to the questions raised in the Consultation Paper, but to give our thoughts in general on the topics.

1. Market solutions

Firstly, we would like to underline that we understand the concern for a reduction of security of supply. This is an important issue and requires serious treatment. Ensuring a satisfactory quality of supply in the power system is an important task for any Government.

Postal address
PO Box 8148 Dep
0033 Oslo
http://www.oed.dep.no/

Office address
Akersgata 59
postmottak@oed.dep.no

Energy and Water Resources Department
Telephone +47 22 24 90 90

Case handler
Kathinka Thilert
+47 22 24 61 42
Vat no. 977 161 630

That being said, we strongly believe that the market holds most solutions and that efficient system operations, interconnections and demand side awareness will get us far. Any technological, political/regulatory or operational barriers should be removed first. By not doing that and by intervening in the market, we worry that trying to solve one problem will only create many new ones. It is not possible to know if the European market will deliver what is needed or not, as long as the internal market in electricity is not fully in place. If compelled to intervene in the market, though, the measures should be as reversible, time-limited and with as few possible unintended consequences as possible.

The Norwegian transmission grid is largely operated with modern technology, and market-based solutions have contributed to efficient price formation and a good utilisation of the power system. Being a country with a high share of hydropower, Norway has always been vulnerable to annual variations in precipitation. Inflow can vary with as much as 50 TWh – or about 40 per cent of the average hydro production capacity – from one year to the next. Because of this, the possibility to exchange power with neighbouring countries has been crucial. Power exchange has moderated the need to maintain a large domestic reserve capacity as an insurance against dry years. It also mitigates price fluctuations.

The Nordic power system has been well integrated over several years. A close cooperation between the power-grid companies has been decisive in order to ensure rational development of the system. This will remain important in the years to come.

Also the future energy mix in the Nordic power system will have a steadily growing share of distributed intermittent production. This will require innovation of the design, development and operation of the transmission grids. Norway's high percentage of conventional hydropower is a good basis. The reservoirs contribute to balance the overall power supply, and reduce the need for other advanced forms of storage facilities. In the longer term, use and development of intelligent grids and IT tools will be part of the solution to how the grid should be designed to meet the challenges the energy sector will face in the future.

2. Capacity mechanisms

Cross border trade of electricity gives added value through better utilization of the energy systems, increased security of supply and more integration of renewable energy. In order to promote cross-border power exchange and to further develop an efficient, integrated energy market in Europe, it is important to develop infrastructure and reduce barriers to trade.

We worry that non-market solutions, such as capacity mechanisms, can distort market behaviour and investment decisions across the internal market. The amount and design of such mechanisms can be crucial when it comes to the investment decisions on interconnectors. An interconnector's contribution to capacity must be considered in a

fair and comparable way to production capacity. Also the design of capacity mechanisms must be carefully considered to minimize distortion of the market.

As stated above, we fully agree that securing power supply is one of the most important tasks in our modern society. It is, though, important that mechanisms designed to provide generation capacity, do not work in a counterproductive way. We should be sure of what is needed and when, and not the least, harmonize our efforts. Nationally-based capacity mechanisms can increase costs for all countries by preventing the best use of generation and flexibility across borders.

3. Conclusions

The Norwegian Ministry of Petroleum and Energy appreciates this opportunity to give our thoughts on ensuring generation adequacy and security of supply in the internal market. We will follow the further discussions on the different topics raised by the EU Commission in the Consultation Paper.

Our main conclusions after reading the Communication on the Internal Energy Market and the Consultation Paper, is that it is important not to undermine the market itself, and also the EU goals of growth, decarbonisation and resource efficiency, by unnecessary interference in the market. We agree with the EU Commission that any market interventions to ensure security of supply should be limited and meet clear common criteria.

We also fully agree with the key message in the Communication on the Internal Energy Market: the importance of allowing the market to work and ensuring that any interventions are well designed and effective. As underlined by the Commission in the objective for the Consultation:

"Careful study is needed before concluding that the market will not deliver generation adequacy and security of supply. Even in extremely critical times during the last number of winters the market has functioned well, and ENTSO-E studies suggest that generation adequacy will be secured to beyond 2020."

Ensuring security of supply is not just about avoiding blackouts, it is also about well-functioning electricity markets.

Yours sincerely,

Henriette Nesheim
Assistant Director General

Kathinka Thilert
Adviser