Energiekamer NMa

Aan

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Onderwerp

Consultation generation adequacy, capacity mechanisms and the internal market in electricity

Dear Sir/Madam,

The Netherlands Competition Authority (NMa) welcomes the initiative of the European Commission to consult on generation adequacy, capacity markets, and the internal market in electricity. In reaction to this consultation CEER has covered essential points from a European regulators' perspective. The NMa supports the CEER position and in this document enriches it from a Dutch point of view. Swift action is needed in view of the plethora of uncoordinated national initiatives for the introduction of capacity remuneration mechanisms (CRM's), which in our view threaten the proper functioning of the internal market and entail a high risk of distorting competition in the (Northwest) European market. This is a serious concern for the NMa, since there is a high likelihood that the Netherlands will become one of the few countries in its region without a CRM[1] and by influence from neighbouring markets forced towards regulatory intervention in the energy only market.

[1] The Dutch electricity law does enable the minister of economic affairs to ask the TSO to tender ad hoc for new generation capacity. This instrument has not been used so far.

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1 Market developments (questions 1-6)

A key question in the debate on capacity mechanisms is whether or not there is a missing money problem. This issue has not yet been resolved – there are differing views both in literature and amongst policy makers. Studies from the Clingendael International Energy Programme (CIEP) suggest that at least ***for the coming years*** there is sufficient generation capacity in the Northwest-European region. CIEP concluded in a recent report on capacity mechanisms that the sum of the "remaining" capacity in the Northwest European region is positive. This allows for some time to address this question more thoroughly. In the meantime the focus should be on efficient (cross-border) use of all available generation capacity, which requires continuing and where needed increased efforts for completion of the internal energy market. Only if these efforts turn out to be insufficient to secure supply adequacy, supplementary CRM's, harmonised on the basis of common European criteria, might be part of the solution.

Up to 2008 the Netherlands was structurally dependent on cross border generation capacity to meet its demand.
In that decade the sprouts of the internal energy market already provided a satisfactory level of security of supply and the Netherlands refrained from implementing CRM's. In recent years there has been a strong increase in installed generation capacity, with more projects underway. According to the Dutch TSO (TenneT) there currently is almost 8 GW more available generation capacity in the Netherlands than needed to serve domestic demand. Combined with interconnection capacity, this generation capacity is used in the internal energy market and contributes to internal energy market generation adequacy. Monitoring reports foresee a further increase toward 14.2 GW 'over'capacity in 2019. This increase has taken place in an energy-only market and demonstrates that properly designed energy-only markets can generate the right incentives for investment.

It is important to note that the Netherlands started, from the outset of the liberalisation, with a market design aimed at fostering competition. A relatively low market concentration at the start of the liberalisation process, early unbundling of transmission networks and generation and/or selling of electricity, and considerable investments in transmission and interconnection capacities have fostered new investments in generation capacity and enhanced the level of competition in the Netherlands.

2 Assessing generation adequacy (questions 7-11)

In an integrated European energy market generation adequacy is no longer a mere national, but rather an international issue. We therefore support efforts aiming at the coordination and harmonisation of criteria for a satisfactory level of security of supply on a national, regional, and European level. Stepwise development of European generation adequacy standards is an important requirement in order to ensure maximum efficiency. With the progress of market

integration, generation adequacy and flexibility should be analysed from a regional perspective, e.g. more in line with the TYNDP or the corridors under the EIP. System operation concerns, such as voltage stability, on the other hand should remain within a national and in most cases local perspective.

Whilst security of supply remains a final responsibility for Member States, more could be achieved by harmonising analyses and exchanging results. We therefore propose using probabilistic analysis on the use of interconnection capacity and therefore implicitly generation capacity in other Member States as a first step. This will deliver an increased and common insight in the generation adequacy analyses of Member States, which will foster regional cooperation on this issue as the next step.

3 Capacity mechanisms (questions 12, 13 and 18)

The NMa is strongly in favour of a joint European approach towards security of supply. Problems should be solved by addressing their root causes, instead of mitigating or reallocating them. Possible solutions should entail participation of intermittent renewable production in the energy market, including the cross border intra-day, balancing and ancillary services market, and harmonising renewable support instruments.

The Dutch wholesale electricity market has developed into an open and competitive market in the heart of the Northwest-European region. A focus on self-sufficiency on a national level in other Member States will not only be at the detriment of the ongoing development and implementation of the internal energy market in general, but also at the detriment of investment incentives (shifting these in favour of Member States with CRM's) and of the level playing field for undistorted cross-border competition based on wholesale prices, e.g. through market coupling. Moreover, there is a risk that any benefits of CRM's will not compensate for these disadvantages.

Since at the moment there are insufficient hard facts on which to base a cost-benefit analysis (including external effects), the NMa welcomes and supports the efforts by the Commission to identify a robust analytical framework for such assessments (see also under section 4 below). Any discussion on CRM's should take place in the context of a transition towards the low-carbon market.[2] The NMa is missing this aspect in the current discussion, and we think it is important to have a clear picture in mind of the desired 'end' situation. The potential lack of a clear coordinated approach may result in prospective investors postponing their investment decisions, and carries the risk that the need for CRM's becomes a self-fulfilling prophecy for Member States such as the Netherlands, which currently are not contemplating the introduction of a CRM.

[2] CIEP and IEA also point out the importance of a roadmap towards a future market design in their reports.

4 Framework for assessing capacity mechanisms (questions 19-20)

Based on the above considerations, the NMa takes the view that only if it is concluded that an undistorted energy-only market will provide insufficient incentives for generation adequacy, introduction of a CRM could be considered. Any such CRM should preferably be harmonised at European level.

Accordingly, the NMa fully supports the development (under the coordination of the Commission) of detailed EU-wide criteria to assess the compatibility of CRM's with the internal energy market. The criteria suggested by the Commission are in our view suitable and necessary in order to safeguard the benefits of the internal energy market. In our opinion the development of new market design policies should be accompanied by an initial impact analysis, include a careful assessment of the benefits and impacts of the proposed market design, and assess how the aforementioned criteria have been met. We suggest adding administrative costs to the criteria, because these may be substantial depending on the complexity of the CRM. Also the possibility of increasing total system costs should be an area for concern. Finally, care should be taken not to implement any CRM's which are difficult or even impossible to reverse.[3]

If, notwithstanding this, capacity differing mechanisms are to be introduced at national level, full compatibility with the internal energy market should be ensured, as it is essential that they do not distort market functioning, including cross-border trading. Therefore, the introduction of any national mechanism should be accompanied by an impact assessment, to guide their design towards the most effective solution, taking into account cross-border effects (e.g. cross-border flows, competition, prices, investments, etc.) in the internal energy market.

Yours faithfully,

Geert Moelker
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[3] The Commission proposes reversibility as one of the assessment criteria.