

Westinghouse's contribution to the

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

Introduction

The EC Consultation preamble properly acknowledges the “missing money” problem when market prices are too low to warrant investments recovery by generators. The EU commitment to decarbonization of electricity is not served by the short term extremely low CO2 emission prices of the ETS. Wholesale electricity prices collapse in the presence of growing solar and wind generation, eliminating the possibility of long term investments in capital intensive technologies, such as nuclear and coal/CCS. Retail prices of electricity go up while wholesale prices stay low, as the high costs of subsidized renewables are directly born by household consumers, potentially driving energy poverty.

The increasing share of intermittent generation weakens diversity and security of supply. Gas fired back up does not attract investment either due to the very low resulting load factors.

The anticipated growth of renewables will aggravate the shortcomings of the current internal market in electricity in the three key areas of carbon, security and competitiveness. All forms of low carbon generation – renewables, CCS and nuclear – must be able to compete on equal terms in a well-functioning market that will achieve decarbonization in an affordable, secure and competitive manner.

Answers to Consultation Paper questions

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

Yes. The current market will not drive investments to provide decarbonized, secure and affordable electricity.

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. Support to renewables depresses the load factor for gas units as back-up or peaking plants and they are consequently mothballed. No further investments are warranted. Short term subsidies to emerging low carbon sources made sense, but a transparent market with a strong carbon price should now provide the best path for investor confidence and decarbonization.

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

An efficient, interconnected power market will incentivize long term investments. The cross-border day ahead, intra-day, and balancing markets will not solve all generation issues.

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?

The Third Package implementation, with no regulated prices and subsidies, will allow all low carbon technologies to compete in a level playing field. Interconnections and integration of demand side responses are also needed.

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

Yes. Barriers and subsidies should be removed first, and better interconnections and reduced ETS caps established. Opposition to hi-voltage transmission lines and to ETS slows the progress down and justify a capacity mechanisms policy.

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

- a. to ensure that new flexible resources are delivered?
- b. to ensure sufficient capacity is available to meet demand on the system at times of highest system stress?

The increase of renewable capacity reduces the amount and reward of load demand to a point where investment in new flexible resources is unprofitable. Market interventions to suppress price volatility contribute to the weakening of signals to stimulate flexible resources investments.

All low carbon capital intensive generation would benefit from the reduction of market uncertainties through long term contracts.

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?
- 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?

There is no EU agreed nuclear phase out. It is puzzling to see this language used by the EC in a public document. Strategic generation reserves typically protect otherwise non viable plant and are contrary to a good operation of the market, potentially ejecting more effective units if they do not have a capacity payment.

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

Capacity schemes must

- a) Be market based, and
- b) Provide early investment signals to enable construction of all types of plants

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

Yes. The UK Electricity Market Reform should be very valuable to inspire a framework blueprint for other countries.
