

# ***COGEN Europe Position Paper***

## **Contribution to the consultation paper on generation adequacy, capacity mechanisms and the internal market in electricity**

*6 February 2013*



COGEN Europe, the European Association for the Promotion of Cogeneration, welcomes the Communication (2012) 663 and the main messages it contains, in particular the call for member states to take all necessary steps to ensure a fully functioning internal energy market by 2014.

**COGEN Europe would like to make the following comments in reaction to the public consultation on generation adequacy, capacity mechanisms and the internal market:**

Proper assessment of generation adequacy has to take a holistic approach and shall also look at electricity demand, infrastructure needs and bottlenecks fixing (from cross-border lines to distribution networks):

- The forthcoming entry into force of European electricity network codes may impact and might even negate the need for domestic capacity markets;
- Before national capacity mechanisms are envisaged, member state and their national regulatory authorities shall undertake a complete screening of the potential of demand side participation and of an uptake of decentralised power production to address the generation adequacy challenge; curtailment of electricity peak demand and local use of generated electricity have to be part of the equation.

Main recommendations should a capacity mechanism be introduced:

- European solutions to local/national generation adequacy issues must be favoured. Those eventual solutions should by design be market-based and take a European approach;
- Such mechanisms shall aim at an enhanced use of existing plants with potential for flexibility or at creating new flexible generation capacity but certainly not at supporting base load and inflexible power plants;
- The capacity mechanism should not be limiting its scope to supporting the electricity system but should also encompass expected benefits to energy markets in a broader sense, and notably in the heating and cooling markets. This mechanism shall for instance take into consideration the maximization of the contribution from CHP plants, existing and possible new built, to securing electricity supply while delivering affordable and low carbon heating/cooling. Under that approach, the mode of

operation of CHP plants, in particular the number of operating hours and the annual output, but also available alternative for generating heating and cooling should be looked at;

- The proposed scheme, and in particular its administrative and technical requirements, have to be clear and understandable for owners and operators of cogeneration installations. The greatest attention shall be paid to encourage stakeholders to take part in the development of the scheme in a transparent manner and workable timeframe;
- The possibility for distributed generators and demand response stakeholders to voluntarily participate in capacity schemes shall be fully utilized (to this end costs and administrative complexity of the scheme shall be reasonable and proportionate to what “small” size stakeholders can handle);
- During the design of the capacity schemes and once they are up and running, the criterion for selection of generators and the rules for their dispatching, shall account for the most common externalities (carbon content of the electricity and energy efficiency dimension in particular shall be included);
- Capacity scheme shall aim to be temporary in time and shall feature safeguard clauses if unforeseen negative consequences occur in the power market;
- For plant operators with whom capacity mechanisms have been signed, terms must not be changed unless agreed by both parties;
- Full compliance to article 15 of the Energy Efficiency Directive 2012/27/EU must be respected<sup>1</sup>.

A key role for the European Commission to:

- follow up on the national implementation of the primary and secondary legislation deriving from the internal energy market package;
- produce guidelines covering the main elements of EU legislations to be considered in order to address in advance the proliferation of various domestic capacity mechanisms;
- assess the conformity against the EU Energy Acquis of any capacity mechanism and launch infringement procedure if needs be.

COGEN Europe looks forward to further contribute to the on-going discussion on generation adequacy and calls the European Commission to develop detailed guidelines so that member states do behave in keeping of the European Energy Acquis.

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<sup>1</sup>National regulatory authorities shall pay special attention to power plants whose mode of operation is conducted in compliance with the High Efficiency CHP definition as it falls now under their newly assigned regulatory task to improve the energy efficiency of the electricity system.