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**E.ON Position on**

**European Commission's consultation paper on generation  
adequacy, capacity mechanisms and the internal market in  
electricity**

**Düsseldorf, 06 February 2013**

## 1 General Remarks

E.ON welcomes the Commission's initiative to launch a public consultation on generation adequacy, capacity mechanisms and the internal market in electricity. Only a European-wide harmonized approach lead by the European Commission or at least a coordinated approach on the regional level on the generation adequacy assessment and on capacity remuneration schemes (CRM) can ensure that distortions in the internal power market are avoided or at least reduced to its minimum.

The primary measure to ensure that sufficient capacity is available in the long-term to meet peak load demand at very point of time is to remove existing distortions such as e.g. price caps, regulated end consumer prices, restrictions or unnecessary regulatory interventions or requirements on plant operations. However, we observe that in many European countries the political acceptance to remove these market distortions is missing and that renewables continue being operated outside market. Additionally, these changes may also take time if retro-active changes should be avoided. It could also be noted that an increasing share of European countries pursue their own national energy policies including the introduction of capacity markets without any alignment with their neighboring countries. Taking these trends into consideration the introduction of a CRM can be an effective measure necessary to ensure long-term security of supply within the Member State.

Any CRM should be designed very carefully and leave sufficient room for the market to deliver the most efficient solutions. Although all three objectives within the energy triangle are equally important capacity mechanisms should focus exclusively on security of supply. Both other objectives should be implemented by other existing instruments such as e.g. a strong EU or cartel instruments. The more objectives are included within a CRM the more complex, the less transparent it becomes, and the less room is left to the market. Unintended interference with other political instruments might additionally occur.

## 2 Specific Remarks

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

There is currently no business case for investments in new thermal generation based on the current spreads in most European markets. This does not mean that the Energy-Only Market has failed to work. The current price level just reflects that there is a sufficient level of capacity and flexibility available in most European markets for the upcoming years.

Investment decisions in generation facilities are mainly based on long-term expectations. The current prices of the spot or forward markets do only play a minor role in the investment decision. In contrast the following long-term expectations of the following issues are decisive:

- Market fundamentals (electricity, fuel, carbon prices and spreads, consumption)
- Generation portfolio, especially the share of renewables, affecting the expected operation hours
- Expected impact of new technologies (e.g. Demand Response, storages)

- Regulatory framework (e.g. planned introduction of a CRM, carbon tax, Robin Hood Tax, must-runs, assumed support scheme for certain capacities (e.g. for renewables, storages, Demand Response))

Furthermore, a stable framework with clearly defined long-term goals is essential. The lack of clarity of the post 2020 goals and the future renewable support scheme produce vagueness on future required power mix and thereby delay required investment decisions.

However, the current market price level is the driver for the current mothballing and decommissioning decisions of existing assets which might be crucial to sustain the required level of security of supply.

**(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, any (direct or indirect) support for specific technologies creates a distorting effect on the market and leads thereby to less efficient solutions. Support schemes for such new technologies are crucial during their pre-commercial development phase for research and development. This is in particular the case for renewables significantly contributing to achieve Europe's climate objectives, which would not been developed to that extent within a pure market environment. However, the more the share of that supported technology grows, the more the other technologies suffer by distorting market signals. In some Member States the current volume of renewables already is far beyond a negligible effect and lead to massive market influence in the energy market. Therefore, it should be endeavored to gradually integrate renewables into the market taking into account their technology specific market readiness. At least by 2030 renewables should compete on equal footing with conventional generation. The decarbonization should then solely be steered by a strong EU ETS as the single instrument.

**(3) 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?**

Yes, it will positively contribute, but not solve the security of supply concern.

The further European integration of cross-border, day ahead, intraday and balancing markets allows an optimal use of infrastructure and an optimal dispatch of European generation assets and thereby lowering the overall need for generation capacity. In particular in the North-Western-Region significant efficiency gains could be achieved in the last years by Market Coupling. Also the volume coupling between CWE and the Northern region ensured that the flow was in most cases in the correct direction. Integrated market also enhance the transparency for the capacity actual required by the system. However, an optimization of assets does not guarantee that physical assets are available. Therefore, further market integration positively contributes to increase security of supply, but its effect is rather limited.

**(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?**

E.ON is of the opinion that different national barriers and limitations to the energy markets should be removed as priority, in the interest of an integrated EU market. In particular action should be taken from a European level on the following issues:

- An actual level playing field shall be ensured by a prompt implementation of the third package, harmonized market rules and liberalized and competitive markets allowing fair cross-border competition. Member States should be requested to stop imposing certain taxes and levy on energy companies and generation.
- Shortage signals in prices shall be allowed to cover the full costs of investments
- Grid at interconnection points as well as within each bidding zone shall be developed.
- Coordination and market integration for renewables shall be improved
- Further market integration in all timeframes, including an harmonized ancillary services market, shall be implemented.

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

Member states should avoid interventions in the electricity market. In particular Member States should:

- Give trust, that market rules are stable over a long period and not changed every few years (subsidies, support mechanisms, price caps, etc.)
- Align and coordinate energy policies at least at regional level with neighboring Member States
- Accept shortage signals in prices
- Remove distortive regulated end consumer prices
- Ensure grid development at interconnection points and at national level
- Improve coordination for renewables and enforced market integration
- Ensure further market integration in all timeframes, including an harmonized ancillary services market
- Increase demand elasticity
- Ensure entrepreneurial freedom for mothballing and decommissioning of generation capacities or in case of any restriction ensure full cost coverage for generators and no disturbance of the energy market.

- Avoid market interventions by imposing certain taxes and levy on energy companies and generation hampering the economic operation of existing generation units and investment decisions on new generation.

**(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?**

National Regulatory Authorities could carry out customer research to assess customers' preferences on quality and availability of supply and their willingness to pay to maintain or improve on existing standards. It is not practical for imposed standards to vary, therefore preferences for different standards across customers can only be accommodated via market solutions. At the moment there is little practical means for customers to demonstrate their choice in the trade-off between security of supply and price except for the highest consuming business customers. Approaches need to be pragmatic and recognize that different customers have different needs, preferences and potential to be more flexible or to accept different security of supply standards. Customers should have the option to offer their flexibility and benefit from the market value. Customers' preferences are only actually known once they buy a product or service, therefore the framework needs to be in place to enable companies to develop and offer innovative products and tariffs.

For household and small businesses, demand flexibility can provide a balancing service via a load aggregator; there needs to be a review of the criteria applied by TSOs to allow for use of aggregated demand response as a balancing service.

**(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**
- b. Regional Level**
- c. European Level**

Yes, we are the opinion that there is a need for review of how generation adequacy assessments are carried out in the internal market in order to bring more transparency. Transparency is essential to achieving market functioning and therefore the choice of efficient solutions based on competitive elements.

Generation adequacy assessments should take into account the possible capacity closures due to economic reasons and not only based on technical reasons and the capacity provided by demand response.

National legal requirements on the assessment of generation adequacy and security of supply have to be followed first. However, we believe that the assessment should not be limited by national border and interconnection capacity should be considered.

To reach European integration, at least an assessment within the synchronized area should be carried out. Negative impacts on European competition and market integration because of different conditions in the European countries should be avoided. With the completion of the internal energy market, security of supply becomes a supranational/regional issue and assessment should be carried out in order to come to a level of EU adequacy.

**(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?**

Yes, at least a regional assessment about the availability of flexibility should be carried by ENTSO-E. The generation mix portfolio and the design and the functioning of the balancing markets might be an issue to monitor by ENTSO-E as preventing recurring blackouts is a real time issue. Thus any assessment should transparently show the amount of balancing reserves contracted by the TSOs, and on how these resources are used. In general, flexibility can be provided by most power plants and the capacity structure is in principle a result of an economic optimization.

**b. Are there other areas where this generation adequacy assessment should be made more detailed?**

The assessment of the different times of national peak loads should be done more precisely. A more precise definition of outages versus spare capacity would be useful and a probabilistic evaluation should be done on the basis of the set probability of acceptable shortfalls.

**(9) Do you consider the Electricity Security of Supply Directive to be adequate? If it should be revised, on which points?**

In general the Electricity Security of Supply Directive can be considered to be adequate even if it acknowledges a lack of coordination at the European level. The focus in the EU actions should be on improving the market functioning by abolishing market barriers, increasing competition and cross-border electricity trade rather than creating new regulation. Therefore we don't see a need to revise the Directive.

**(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?**

One to one equivalency does not seem feasible since other factors intervene in security of supply in electricity that adds a different complexity than in the case of gas. Important differences exist

in terms of security of gas and electricity supplies. Security of electricity supply is rooted in a short-term dimension, i.e. keeping the lights on by avoiding that imbalances in demand and supply create disturbances and a cascading effect on the grids that leads to black-outs.

**(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?**

A European coordinated approach on the required capacity level and methodologies would be preferable. Ideally it should be aligned with expert groups and agreed with customer representation groups.

In the context of an integrated market different adequacy standards in neighboring countries will lead to free-riding, i.e. in time of scarcity electricity will flow from the countries with higher standard to the one with a lower standard and consumers in the country with a higher standard will consequently pay for the security of supply of the country with the lower standard.

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

Yes, as stated in the general remarks, measures to improve market functioning and to remove existing market distortions to gain a fully liberalized, competitive and integrated market is our clear preference and would assumingly reduce the need to introduce a CRM. However, we observe that the developments in several Member States are going in a completely opposite direction with increasing market interventions. Therefore, a CRM might be needed as an effective measure to ensure security of supply although not all instruments to improve market functioning have yet been exhaustingly used. The removal of existing market distortions may also take some time to phase-out as retro-active changes should be avoided.

The situation differs from country to country depending in particular on the geographical and political conditions. The Nordic region e.g. has better conditions to face the challenges of intermittent renewables due to a large capacity of flexible hydro power.

**(13) Under what circumstances would you consider market functioning to be insufficient:**

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

The increasing share of renewables triggers the generation mix. The more renewables there are in operation the more flexible and less base load plants are required. The transformation of the generation requirements should come from price signals of the wholesale markets including regulation power and system services. The day ahead, intraday and balancing market should deliver the needed price signals for flexibility. Therefore, no additional market scheme is necessary to reward flexibility. Some pre-requisites are however needed. First, there must not be any regulated prices. Second, demand must have the technical and commercial possibility to react on prices. Please see question 4 and 5 for more general requirements.

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

Markets will not function properly if regulation hampers appropriate price signals. Sudden and discretionary market interventions have already postponed investment in new and existing reliable power generating capacity. Therefore, as a first fundamental step, energy-only markets must be allowed to function properly by removing distortions which hinder the demand and supply balance. Such distortions include regulated end-user prices, restrictions on plant operations, price caps and other regulatory or administrative measures which unnecessarily hinder wholesale market outcomes. Please see question 4 and 5 for more general requirements.

**(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?**

A strategic reserve can secure sufficient generation capacity in a transition period. The strategic reserve can serve as insurance for extreme cases as it gives TSO a last resort when markets are not able to deliver, without distorting the wholesale market. The concept of a strategic reserve has a number of positive features. It can be easily implemented and easily abolished. The strategic reserve has a limited disturbing effect on the internal market as long as it is used in exceptional situations only.

The strategic reserve is not an appropriate tool to steer targeted new investments for a low carbon generation. Depending on the detailed design a strategic reserve would rather keep existing plants (independently of their emission performance and ramp-rates) operationally and encourage demand response. A stable regulatory framework, long-term envisaged energy policy and e.g. a strong EU ETS would be more appropriate tools to achieve the climate objectives.

**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?**

The basic idea of a strategic reserve is to use the reserve at a very high strike price close to the value of lost load when supply does not meet demand on the day-ahead market. This is usually the case at the technical maximum spot market price. Thereby, necessary price signals in the energy market for existing assets and new-builds are not hindered by the introduction of strategic reserves. However, there is a risk that strategic reserves might be used for political targets such as to keep wholesale price low, i.e. the strategic reserve is activated at an early stage. This would hinder price signals, distort and negatively affect the respective coupled markets. This could lead to more disinvestments, and thus additional need to place the withdrawn plants under "strategic reserve", resulting in a downwards investment signal (slippery slope) where more and more plants would be placed under the strategic reserve.



**(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?**

If the introduction of a capacity remuneration mechanism is considered, the need to avoid market distortions within the European energy market should be taken into account.

In our view the most compatible models of capacity market are the ones which are based as far as possible on competitive elements to ensure efficient solutions and aligned at the European level or at least with neighboring markets. The fewer objectives and fewer parameters that are defined within the model, the more room is left to the market to provide the most efficient solutions and ensure fair competition. Therefore, the model should be non-discriminatory with regard to existing and new-built assets, generation, demand response and storages and technologies. Other objectives such as competition and climate objectives should be implemented by other existing (or new) instruments.

The capacity market in our point of view should be designed in a competitive and efficient way under the following requirements:

- The required capacity level should be aligned with advice expert groups, and consider import from neighboring countries to avoid any suboptimal overcapacity.
- The capacity price should be determined in a competitive way (e.g. auction, traded certificates).
- The approach should be technology neutral provided that different technologies offer the same level of firm and reliable capacity.
- Existing assets should compete with new-builds as well as demand response measures and storage for the most efficient solution by following the approach of "one product – one price".

Predictability and reliability are essential preconditions for investors. Incentives for existing plants and new investments have to be reliable and transparent market rules are essential to build-up confidence in the market. These rules should also determine in which market situation a change of market rules is required and on which basis the change will be made. A continuous adjustment of the capacity mechanism sets up additional risks for investors and existing operators and make them reluctant to invest. Therefore, the more self-regulated elements a mechanism offers, the less regulatory interventions are necessary. Politicians have to consider the time lag (construction period) between the political decision and the effectiveness of the market reaction. Retroactive changes to the legal framework should be avoided.

Thus, the most distortionary models of capacity markets are in our point of view the ones which inherent various parameters, discriminate technologies, demand response and storage, include other objectives than security of supply. In particular selective capacity models will cause unintended side-effects (slippery-slope-effects) in the mid to long-term perspective and will

require continuous changes in the capacity mechanism and might be more expansive at the end. These continuous unpredictable or even retroactive changes in the capacity mechanism should be avoided with regard to investment climate. Models which include price caps at the day-ahead, intraday or balancing market will also cause distortions at these markets. Administrative prices for capacity payments determined by authorities will not reflect the market price for the capacity provided and requires deep market knowledge to hit the required volume.

**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?**

As stated above flexibility should be rewarded by competitive, not regulated, wholesale, balancing and system services markets. The approach should be technology neutral provided that different technologies can offer the same firm and reliable capacity. The choice of the best compatible technology should be left to the market.

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

All mechanisms besides strategic reserve need some longer duration to have effect and need to be guaranteed for a long period to encourage investments based on the mechanism.

If designed as stated in the requirements listed in questions (15) a. and b., a well-designed and market-based capacity mechanism should be a self-regulated instrument and would lead to low capacity prices when the market is oversupplied.

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

Market-based approaches with as few parameters as possible leaving as much room for the market as possible will create fewer costs compared to models with numerous targets and administratively set parameters (see also our answer to question 15a). In assessing the total costs for end consumers, not only the very short-term but also the long-term effects should be taken into account. Selective approaches might be less expensive in the very short-term but more expensive in the long-run (due to slippery slope effects).

However, the main cost driver for end consumer will be the defined capacity level including the reserve margin and considered interconnection capacity. Costs will also increase by regulatory intervention steering towards a certain technology mix.

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

Not at all. Capacity mechanism should aim at ensuring that enough capacity is in place and available in the long-term. A capacity mechanism that incentivizes flexibility would imply some type of technology discrimination that would increase costs. Including these two different objectives into a capacity mechanism may result in discriminatory, expensive and less transparent mechanisms.

Balancing markets are mainly tailored to provide flexible solutions in real-time or near real-time timeframes in order to support the stable operation of power systems (see also our answer to question 13).

Technological characteristics like ramp-up rates should be rewarded by wholesale, balancing and system services markets.

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

No. A single EU-wide capacity mechanism is neither currently feasible nor required. Differences among Member States, as far as specificities of their electricity systems are concerned, make it advisable to abandon the idea of "one-size-fits-all" solutions.

Poorly designed capacity remuneration mechanisms introduced without proper coordination at EU level risk being counterproductive and having an impact on fair cross-border trade. Therefore, capacity remuneration schemes should ideally be based on European harmonized principles (see also our answer to question 15).

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

Yes. We support the development of such criteria. Such an assessment is a European issue because it will potentially lead to an irreversible change in the present market design on which the whole internal market legislation is based. The EU Commission in cooperation with ACER should take the lead in the process of establishing a clear and effective framework for the use and non-use of capacity mechanisms.

**(20) Do you consider the detailed criteria set out above to be appropriate?**

Please see comments below.

- 1) *The necessity for a capacity mechanisms should be clearly established in the context of:*
  - a) *The potential of the identified needs being met in the normal operation of the internal energy market, in particular:*
    - i) *increased interconnection and in particular the completion of identified projects of Common interest.*

Yes. However, increased interconnection capacity has to be combined with increased transmission and distribution capacity within each bidding zone otherwise it doesn't prevent that certain amount of generation will be necessary at local level for internal congestions, dynamic stability and renewables back-up. Many important interconnection projects have been announced in the TEN-E regulation, only limited projects have been achieved so far. The PCI process proposed in the new Infrastructure package is an important improvement, and will help the realization of highly needed projects to achieve the three pillars (renewables, competition and security of supply).

There is a need for consideration of the likely time lag (construction period) between the political decision and the effectiveness of the grid infrastructure. While the grid development often cannot take pace with the increasing installation of RES generation capacities there might be some local system integrity issues arising. Local generation capacity might be needed until congestions are removed and interconnection capacities allow imports from another Member State.

*ii) steps to encourage effective competition by addressing the position of dominant undertakings.*

Competition issues differ from generation adequacy issues and should be tackled in a different regulatory framework. The most efficient and economical methodologies to ensure renewable integration should be pursued. E.ON believes that capacity mechanisms should have generation adequacy as the only target. By putting too many different targets into one instrument, it becomes less efficient. Effective competition and market integrity should be ensured by national and European authorities.

*b) Alternative, less distortionary measures which could be taken, for example steps to improve energy efficiency or reduce electricity demand.*

Energy efficiency will be encouraged by a functioning market. However, energy efficiency and reduction of electricity demand are not "alternatives" for a capacity mechanism, even though they are important drivers for a sustainable energy system. A lower electricity demand would not change the fundamental situation for generation adequacy. In the short term it might lead to closure of some more existing generation units and no need for new investments in conventional generation, storage and demand response solutions. Therefore, investors need a clear view on energy efficiency and demand reduction policies in order to be able to take the right investment decisions. It should be noted that increasing energy efficiency can lead to higher electricity demand for example by introducing electric cars. The European Commission should make a careful distinction between "energy efficiency" and "demand side response". Energy efficiency is a "permanent" elimination of energy need, while demand side response is a "short term" reaction. Also it must be noted that energy efficiency measures are not possible to be included as capacity resources, as they are not resources that are bid in the electricity markets. Abuse of capacity mechanisms offered for

energy efficiency should be avoided. Demand side management is needed, as it can resolve part of the problem to the degree it can cap peak demand for a certain time period.

It could be questioned if some of the current energy efficiency mechanisms can be considered to be less distortionary than a capacity mechanism.

*c) Removing barriers to the effective participation of demand in the electricity market.*

Yes. To enable end consumers to participate in the electricity market, prices need to be fully liberalized; the smart meters are needed, appropriate tariffs offered and settlement processes provided. Demand response should as well have equal opportunity to sell ancillary services.

*2) The effectiveness of the capacity mechanism addressing the identified market failure should be demonstrated and that it is additional to what would have occurred under normal market rules.*

In the question 4, we have listed elements impacting the investment climate in most of the Member states and noted that in some Member States the political support for removing or reviewing market distortions could not be observed in the short to mid-term perspective. In this situation the introduction of a capacity mechanism might be an approach to face the economic challenges of conventional generation.

We are of the position that once a capacity mechanism has been introduced it will be very difficult and maybe even impossible to assess what would have occurred under normal market rules, e.g. which disinvestment or investment decisions would have been made.

*3) The duration of the application of the capacity mechanism should be clearly limited and clearly specified,*

*a) The impact on the market of the introduction of capacity mechanisms should not make it difficult to reverse that decision in the future.*

A well-designed and market-based capacity mechanism should be a self-regulated instrument and would lead to low capacity prices when the market is oversupplied. The mechanism might therefore remain active without producing any effect on the market having minor overall costs, and could be reused again when a need for capacity reappears. Any retro-active changes should be avoided as it will negatively affect the investment climate.

*b) The necessity of retaining reinstating a capacity mechanism should be subject to review.*

Yes, but one should take care of the risks of 'spill-overs' due to regulatory readjustments. A continuous adjustment of the capacity mechanism leads to additional risks for investors and existing operators and to investors' reluctance.

The more self-regulated elements a mechanism offers, the less regulatory interventions are necessary. Therefore, it should be clear for investors under what circumstances and in what way the mechanism might be reviewed.

*4) Any capacity mechanism should be open to electricity undertakings operating in other Member States, to the extent they are able to make the electricity available in markets to which the capacity mechanism is established.*

Yes. This could only be achieved by having a common regional capacity mechanism for several bidding zones. If the capacity mechanism were organized as a market, there could be auctions or capacity tickets per bidding zone according to the same principles as market coupling. In case there are no congestions, the auction will result in a common capacity price. In case of congestions, price of capacity will be higher in bidding zones with more scarcity in the same way as during the day-ahead market coupling.

Cross-border capacity selling would be more difficult in case there are different capacity mechanisms in different bidding zones or no capacity mechanism at all in some bidding zones.

*5) Any capacity mechanism should not act as a barrier to cross border trade or competition in the internal market by:*

*a) artificially altering trade flows or the location of production, in particular by:*

*i) restricting the ability of electricity undertakings in the Member State to sell their electricity to customers elsewhere in the internal market, (i.e. capacity physically located in a Member State should not be reserved for that Member State).*

Yes it is important that cross-border competition is ensured. The introduction of the electricity target model will ensure efficient cross-border trading. However, different capacity mechanisms will not lead to a fair cross-border competition, in the same way that existing national regulations are disturbing a level playing field.

*ii) distorting the commercial behaviour of generators in the day ahead and intraday markets.*

Yes it is important that day-ahead and intra-day markets are not disturbed. Possible capacity mechanisms should be complementary and should not interfere with energy markets functioning.

*iii) distorting investment signals in the internal market leading to inefficient locational choices.*

Yes. However different CRMs will lead to distorted investment signals, just as different renewables support schemes are doing today. It is useful to reiterate that many other distorting investment signals already exist (taxes, injection tariffs, etc..) that should be abandoned.

*iv) distorting investment signals in the internal market leading to the displacement of new investment from one Member State to another.*

Yes. Please see iii)

*b) distorting dynamic incentives/crowding out;*

*i) The incentive on consumers or generators to respond to high prices at periods of scarce capacity should not be diminished.*

Yes, demand response to price signal should be incentivised and should be part of the design. This means that there should be no regulated end user prices.

*c) creating market power or exclusionary practices;*

*i) The mechanism should not strengthen or maintain the market power of incumbent firms.*

E.ON believes that equal treatment of all market participants, consumers, storage operators, existing and new generators irrespectively of technology has to be ensured.

*ii) The mechanism should not act to maintain inefficient market structures or undertakings, acting to deter new entry.*

Please see i)

*6) To be non-discriminatory a capacity mechanisms should*

*a) be allocated after an open competitive bidding process.*

Yes, the capacity price should be determined in a competitive way (e.g. auction, traded certificates)

*b) allow demand response and energy efficiency solutions to bid into capacity markets on an equal basis to generation.*

The most efficient approach to provide capacity at the lowest cost is to create a market-based mechanism where all generation, storage or demand side measures providing firm capacity are rewarded at the same value, given that it is offering an identical product. Please see also our response on 20.1 b) related to energy efficiency.

*7) Not be confined to any particular generation technology, i.e. being tech. Neutral (insofar as the mechanism is directed towards security of supply concerns – this may not apply if other objectives are also being pursued).*

The approach should be technology neutral provided that different technologies can offer the firm and reliable capacity. The choice of the best compatible technology should be left to the market. By putting too many different targets into one instrument the instrument becomes less efficient. Carbon emissions should be incentivized by emission trading and flexibility should be incentivized by energy and regulation power markets. Existing units should not be discriminated and there should as well be no discrimination between different market participants.

8) *Capacity mechanism should be at least cost:*

- a) *The direct costs imposed on suppliers or others electricity undertakings must be kept to the minimum necessary.*

Yes, please see our response to question 16.

- b) *Persons providing capacity under the obligation must not be overcompensated.*

If the price is determined in a competitive way there will be no overcompensation.

- c) *Any selection process in the mechanism should be conducted in a transparent, open and non-discriminatory way which is market based.*

Yes.

- d) *The duration of any compensation to generators under the mechanism should be clearly justified.*

Please see our response to question 20.3

9) *Costs associated with capacity mechanisms should be allocated to the beneficiaries of secure energy supply with different classes of consumers being treated in a non-discriminatory way.*

Yes. However, customers could also participate in the secure energy supply via demand side response. Therefore a well-designed capacity mechanism should avoid "overcompensation" for generators as well as "double discount" for customers.

**20.a Should any criteria be added to this list?**

No, the list seems to be complete.

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

It is important that any capacity mechanism is market based and used for generation adequacy only. The approach should be technology neutral provided that different technologies can offer the firm and reliable capacity. The choice of the best compatible technology should be left to the market. By putting too many different targets into one instrument the instrument becomes less efficient. Carbon emissions should be incentivized by emission trading and flexibility should be incentivized by energy and regulation power markets. Existing units should not be discriminated and there should as well be no discrimination between generation, storage or demand response or between different market participants.