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European Commission

Public Consultation on

GENERATION ADEQUACY, CAPACITY MECHANISMS

AND THE INTERNAL MARKET IN ELECTRICITY

Reply from NASDAQ OMX

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GENERAL APPROACH

NASDAQ OMX welcomes the opportunity to comment on questions linked to generation adequacy and capacity mechanisms.

NASDAQ OMX strongly supports widely recognized view that only decentralized , ‘energy-only’ markets can ensure supply security in short term and generation adequacy in long term at least cost. It happens through the market price mechanism that allows prices increase in scarcity periods thus signaling need for investments in new generation capacity at the right time, in the right place and with the right choice of technology.

We do not think that any additional capacity mechanisms are necessary to secure generation adequacy. Regulators must first let ‘energy-only’ markets function properly by removing the distortions like price caps, regulated wholesale and retail prices and other regulatory measures. The 2014 establishment of regional and pan European short-term electricity markets will further foster the supply security in the internal market.

Potential causes of a “missing money” problem

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

Market prices in a well-functioning competitive wholesale electricity markets provide the best incentives to invest in new generation capacity.

Many national electricity markets in EU have only recently been liberalized and the transition to pan-EU electricity market has not been completed yet. Hence, the current wholesale market is still not fully competitive and market prices fail to provide proper investment incentives. There still exist certain regulatory constraints on prices that keep the prices at sub-efficient level to stimulate needed investments. In our view, national and EU institutions should work harder on removing these barriers by limiting existing regulatory interference with the market instead of implementing additional market regulations as capacity mechanisms.

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?

In our view, any form of subsidies for special energy sources contribute to artificially low wholesale market prices that in turn lead to underinvestment in additional generation capacity. The entities generating electricity from “specific energy sources” should be faced with equal market conditions as other energy generators in order to create level playing field that will result in adequate and timely price signals for investments.

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?

We consider the creation of cross border day ahead, intraday and balancing markets a crucial element in the Target Model of EU internal market. These markets will facilitate the balancing of market at the time close to delivery. Moreover, we see that these markets will be particularly important considering future growth in intermittent electricity generation with no guarantee until the real time of delivery.

We believe that these markets if coordinated across Member States will be a sufficient measure to provide adequate availability of resources in the time of sudden changes in output thus ensuring security of supply.

We expect this will happen in short to medium term pending on the speed of implementing market coupling projects across Europe.

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?

We think EU institutions should consider “no capacity mechanism” option and further work on building competitive pan European wholesale electricity market. First of all the internal market rules should work against establishment of different uncoordinated capacity markets across Europe. The reason for that being increased inter-dependency of local/ regional electricity markets in the Union. The market interventions in one country will have significant cross-border effects. Some countries will free-ride on the effects of capacity mechanism implemented in the neighbouring countries while the others will suffer losses. The investments will not be realized there where really needed but where the capacity mechanisms are implemented. We also see that uncoordinated capacity mechanisms may interrupt price formation process and undermine functioning of the integrated internal market.

If “no capacity mechanism” option is ruled out in some markets due to strong threat to security of supply, a European or regional capacity mechanism should be introduced. The introduction of such a capacity mechanism should come as an optional supplement to wholesale and ancillary markets improvements. The mechanism will be fully consistent with internal market design and reversible when no longer needed.

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

Member States could enhance price-responsive demand market by removing regulatory measures in national markets (e.g. price control over wholesale and retail energy prices).

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?

Market-based demand participation could be stimulated by for example deploying smart grids and smart meters and by introducing more dynamic price models for customers allowing them adapt their consumption to the price signals.

Coordinated approach to the estimation of required and available capacity

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 believe generation adequacy reviews on European level will be needed.

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?

Taking into consideration the expected increase in intermittent generation and creation of integrated short term markets we believe the assessment of flexible capacity will be an important complement to the report.

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

No comment.

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

No comment.

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

No comment.

11. Should generation adequacy standards be harmonized across the EU? What should be that standard or how could it be developed taking into account potentially diverging preference regarding security of supply?

The standards and methodologies should be harmonized across EU.

Mechanisms to address generation adequacy concerns:

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

The capacity mechanisms should be introduced as the last resort in case supply security and generation adequacy is seriously endangered.

- 13. 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?**

We believe that the case when the available capacity cannot meet the demand in a time of system stress is the best indicator for insufficient market functioning. This could be a sign of weak demand market participation in setting prices which implies the necessity for some form of market intervention. Introduction of a capacity mechanism would reduce investment uncertainty as it would provide steady revenues for remunerated generators to invest in new generation capacity. However, it will also have a negative impact on the supply-demand balance, distorting market prices, destroying the incentives for market integration and investments in interconnectors etc. In other words, it will undermine the design of the internal market.

- 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?**

No comment.

- 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?**

Provided the strategic reserves are implemented based on clear, non-discriminatory, EU wide rules defining when and how they can come into effect and never over-used then they are likely to least interfere with the internal market. They can also be easily terminated.

- 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?**
 - 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?**

No comment.

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

No comment.

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

No comment.

18. Should the Commission set out to provide the blueprint for an EU-wide capacity Mechanism

The coordinated EU- wide approach is the only acceptable option for market interventions regarding capacity mechanisms.

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, full compatibility of mechanisms with the internal market is a key requirement.

20. Do you consider the detailed criteria set out above to be appropriate?

a. Should any criteria be added to this list?

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

No comment.

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