

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

<b>Response by:</b> <b>CFE-CGC Industries Electriques et</b> <b>Gazières: 59 rue du Rocher- PARIS 75 008</b>	COM Transparency Register, Number of registration: 69851845452-33	<b>February 8th 2013</b>
--	---	--------------------------

*Federation CFE-CGC in electrical and gas industries represents supervisors, technicians, senior technicians, as well as managers from the energy sector, whatever their area of activity (technical, customer relations, sales and marketing, etc.) or the nature of their duties (expertise, management): all these professional categories are grouped together under the name "Management".*

*Our trade union is a true social partner that brings together women and men who share common values and principles in good faith. Free thinking and recognized for its relevant analyses and pragmatic proposals, it sets out to continually unite and underpin collective action, which is the sole driving force of social progress. An advocate of respect and equity that cares about solidarity, it makes a completely independent contribution to the effective operation of companies as long as it considers that the interests of their staff and customers are respected. Otherwise, it does not hesitate to get involved in non-violent conflict. With its proposals and constant openness to its environment, it takes on the responsibility of engaging in negotiations in favor of social progress.*

*Federation CFE-CGC in electrical and gas industries is the leading representative organization among management and the number three among employees as a whole in the electricity and gas industries.*

*Federation CFE-CGC in electrical and gas industries is recognized as French social partner within the energy sector. Further, it is affiliated also to Fédération Européenne des Cadres de l'Energie et de la Recherche – FECER*

## **FOREWORD**

The recent failures of the electrical network undergoes several regions showed the interdependence of European electricity system and the need for solidarity between the electric systems of European countries. Moreover, with objectives development of renewable energy for future and the intermittent nature of these means of production implies an evolution of approach of European electricity system and its single market.

In this context it's necessary to consider the terms and / or investments in production capacity to ensure coverage of the electricity needs of Europe Union countries with a high level of reliability, with an optimal price benefiting users (companies and individuals), guaranteeing a good international competitiveness.

The fluctuation of medium and long-term needs makes difficulties to quantify forecasting. This will require extensive studies real needs, in particular by developing simulation tools at European level. These precise evaluations are more essential that the means of financing are difficult to obtain during budgetary restrictions.

Strengthening collaboration between Member States will guarantee the service provided to the European electricity community. These changes should lead to establish a real "European Electricity Community".

The way to achieve goal involves deploying following actions:

- implementation coherence of prices
- harmonization of European energy taxation
- definition of diversified and common energy mix, in cooperation between member states
- deployment of strategic reserves above actual reserves
- establishment of real European electricity "Transmission System Operator", with reinforced prerogatives.

## Responses on the questions

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

*All investments are financed from a market price basis. The point is to determine if generation capacity ranks first in the list. The financial impact of each decision: carbon emission reduction, energy efficiency improvement, network quality, security of supply, must be precisely calculated, classified among a list of priorities and planned.*

*The current organization of the internal electricity market doesn't encourage long-term investment.*

### **(2) Do you consider that support (e.g. direct financial support, priority dispatch or special network fees) for specific energy sources (renewable, coal, nuclear) undermines investments needed to ensure generation adequacy? If yes, how and to what extent?**

*Supporting energy sources which are not profitable or which generate technical problems do undermine investments needed to ensure generation adequacy. To this extent, it seems necessary to put renewable energy development under more control.*

*Support certain types of renewable energy (on which it could be difficult to rely on) undermine profitability of flexible generation project (fix costs could not be recovered).*

### **(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, work on cross border exchange contribute to ensuring security of supply, but it's difficult to know when it will be enough improved.*

### **(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?**

*The implementation of a real European "Transmission System Operator" would improve coordination between Member States. In addition, the strengthening of links between regions will reinforce security of supply.*

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

*Each member state is free to define its energy strategy. However, the demands of global competitiveness which the European Union is confronted it's essential that energy policies are defined on European level.*

### **(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?**

*Regarding security of supply, consumers can also be actors : some of them are ready to reduce their energy consumption if they benefit from price reduction. It is a good incentive.*

*Public authorities could reflect the preference of consumer by determining which level of margin is necessary on peak load. Consumers that prefer lower standard could be part of demand side contract that allow supplier or TSO to disconnect (or reduce) them in case of imbalance.*



**(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, deeper generation adequacy reviews is needed at regional level. This review could take in account cross border exchanges and bottleneck situation.*

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

*The development of renewable energy, new energy outlook in some European countries, changing uses of electricity, the necessary international competitiveness, geopolitical problems undermining security of supply involves reassessing the prospects for needed production, both at national and European level.*

*This will involve deployment of new evaluation tools, more accurate and higher frequencies to promote the reactivity of adaptations of needed production.*

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

*Directive 2005/89 / EC concerning measures to safeguard security of electricity supply and infrastructure investment, calls measures with a view of the electricity market during the 2000s. However, the electrical System has changed profoundly (opening markets - developing renewable energy - unilateral choice of states for energy transitions - peak demand, etc ...).*

*This directive must be revisited on light of current context, with a prospective approach.*

*Moreover, all teachings of single electricity market must be learned and adaptations should be recommended pragmatically, without dogmatism.*

*In this view, work of New Task Force of CEER co-chaired by the Austrian and French regulators (E-Control and CRE) could contribute to the revision of this 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?**

*Although issues of security of supply are different between gas and electricity, risk assessment should be considered. It could be integrated into the overall assessment of capacity needs.*

**(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?**

*If we want to develop an integrated energy market, generation adequacy, standards harmonization seems necessary.*

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

*Indeed these mechanisms must be dedicated to potential network failures. They should not be subject to speculation.*

*These resources dedicated should be clearly identifiable and verifiable as to their availability.*

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

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

*Yes because if system doesn't have enough flexible generation unit it will be very difficult to cope with wind and solar variability.*

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

*It could be a good solution if strategic reserve is used only on high stress situation and by the TSO, but it raises the question of investment on medium and long term if the tense periods increase in duration and needs.*

**(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?

*Strategic reserves are not intended to provide transitions means of production. Energy transitions must consider the specificities of the country (natural resources available in the country, skills, industrial sectors of states).*

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?

*Determination of volume and usage condition of that reserve should be well balanced in order to avoid distortion of competition between actors. But it should not be subject to speculation.*

**(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?

*When needs are identified and valued, classic Call for Tenders seems enough appropriate. This implies that in context of the review of valuation mechanisms stakeholders have the same understanding of the aim to deploy these dedicated capacity.*

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?

*In low-carbon electricity market it would be paradoxical to promote capacity production with CO2 emission. These capacities must be made from low-carbon electricity. Either directly (hydro spinning reserve - overcapacity), or indirect as storage, but from low-carbon electricity.*

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

*Staffing capacity market mechanisms should be done with a long term vision to ensure investment returns. This condition is associated with a very precise study needs. These contracts will necessarily be in the long term, otherwise no investor will venture into projects devote to losses.*

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

*One way to limit costs for final consumer is an energy efficiency closer places of electricity consumption.*

*Modalities of total or partial erasing of the consumer could be considered through specific contract.*

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

*No response.*

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

*Yes, it could be an interesting solution, provided we develop at the same time the necessary infrastructure to supervise the energy market at European level.*

**(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, provided all states members are associated to the definition those criteria.*

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

a. Should any criteria be added to this list?

*Provide one criteria for public service obligations, or general interest service.*

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

*Criteria 3 should have an higher weight in order to avoid long term consequences.*