

1. RESPONSES TO CONSULTATION: GENERATION ADEQUACY, CAPACITY MECHANISMS AND THE INTERNAL MARKET IN ELECTRICITY

SUMMARY

- We received 148 responses
- There is near unanimity that it is critical to ensure better market functioning and further integration of markets to help ensure security of supply.
- Views are almost evenly divided as to whether the existing market framework (i.e. without capacity mechanisms) could deliver the necessary investment to achieve security of supply
- There are strong calls for policy certainty, more market integration of RES and a European harmonization for support schemes as the least distortive solution.
- There is widespread agreement that we need to improve how we assess security of supply, with most respondents calling for more cooperation and common methodologies.
- There is limited support for common security standards or a revision of the Security of Supply directive or an EU blueprint for capacity mechanisms, but widespread support for detailed European criteria governing the implementation of such mechanisms.
- Some MS (UK, FR) express caution about developing overly restrictive criteria at European level

2. RESPONSES

There were 148 individual responses to the consultation. We received responses from public bodies, industry (energy producing and consuming) and academia. Responses were of a high standard, not only engaging with the questions posed and the challenges being addressed, but bringing valuable insights to the Commission's reflections of this important topic.

In our analysis we have focussed thus far on the most salient points. We have also recognised that respondents brought different considerations to how they answered different questions. Thus to make an assessment as to whether respondents considered that an energy only market could deliver new investments it is necessary to look not just at Question 1, which asked if current market prices are preventing needed new investments¹, but also Question 12 which asks if capacity mechanisms should only be introduced if and when steps to improve market functioning are clearly insufficient.

¹ Many respondents here only focussed on the current returns/revenues to new power plants but did not focus on whether new power plants were needed.

Where respondents have written to express support for an association position we have generally not replicated those views in our calculation of the total numbers expressing a particular view, as it is already clear that associations speak for their members on topics².

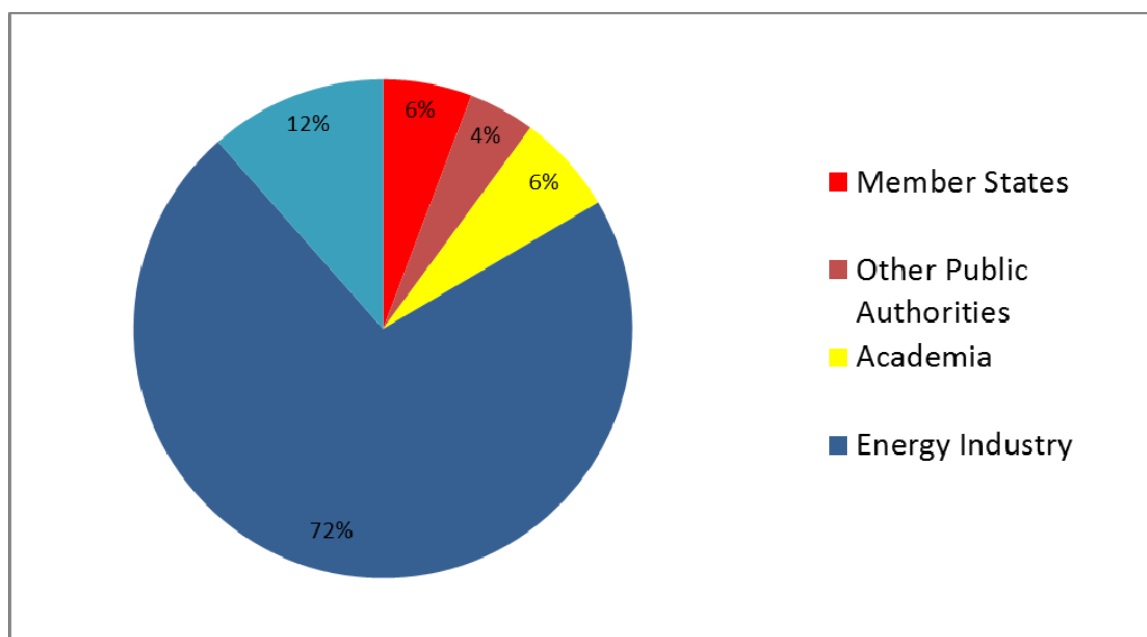


Figure 1 Breakdown of respondents

3. PREPARING THE GROUND FOR THE MARKET

Consultation responses repeatedly highlighted the policy uncertainty and national uncoordinated interventions of various kinds, in particular support for renewables, as being critical elements in discouraging investment. This was highlighted frequently by industry and also by academics and think tanks. The related issue of fixing the flaws of ETS was also raised repeatedly by industry. For example Energy UK states that "national measures often respond to a lack of coherence in EU energy policy itself – in particular there is a conflict between the market driven approach to liberalisation and to EU ETS and the various sectoral targets in renewables, energy efficiency etc." The Netherlands (Ministry of Economic Affairs) responded "the absence of a credible carbon policy and a lack of proper market functioning cannot be underestimated"

The Commission published the Green Paper on a 2030 framework for climate and energy policy and plans follow up on this in 2014. .

4. MARKET FUNCTIONING

In the context of a weak demand and economic crisis, Europe's energy markets today area characterised by two developments: the integration of large amounts of renewables and the implementation of the target model. This is clearly reflected in the responses to our consultation.

² The outcome of a consultation process is not determined by simply adding up the number of respondents expressing a particular view. The purpose of a consultation is to enable the Commission to gather views and knowledge from stakeholders and not to act as a decision making process in itself.

Overall opinion is split as to whether energy only markets could deliver investments needed to ensure generation adequacy and security of supply³. However, there is near unanimous support from respondents for the importance of the completion of the integration of day-ahead, and close to real time markets as a an important contributor to security of supply although, some respondents caution that this will not address fundamental problems with whether energy only markets can deliver resource adequacy. Similarly, there are strong calls facilitating demand side response (see for example the E3G response) and the development of grids in line with the ten year network development plan.

Almost all responses to the consultation raised the impact of RES on the market. For example the UK response discusses the impact that more low marginal cost pricing will have on the market, and the issue is discussed in detail in the Clingendael paper submitted in response to the consultation.

Industry in particular raised the issue about the impact that RES support schemes had on the market. While many raise the issue of any out of market support creating distortions, the position set out in the response of Eneco, a Dutch company is worth quoting "In general, support for specific energy sources does not undermine investments to ensure generation adequacy, it just changes the merit order. But details of support mechanisms can, specifically if a support mechanism lowers the value of flexibility". This consideration can be seen in the numbers of respondents who cite priority dispatch or lack of balancing responsibility for RES producers as posing particular problems on the market⁴, an issue which is separate from the level of support for RES producers, as indeed recognised by Germany who stat in their response "Allerdings ist ein Umstieg von der Festverguetung unter der garantierten Abnahme des EE-Stroms auf ein System der Marktintergration notwendig, in dem die Erneueuerbaren ihre Einspeisung an dem Marktpreissignal orientieren..."

³ Here we have assessed the responses questions 1 and 12 together

⁴ Priority dispatch does not necessarily imply a lack of balancing responsibility.

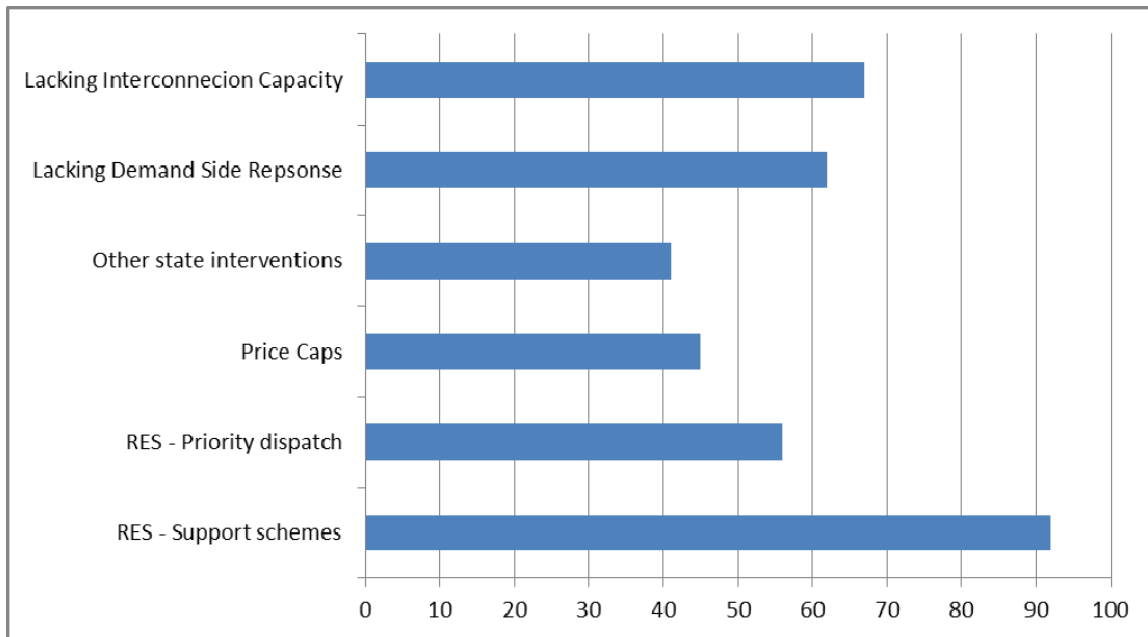


Figure 2 Barriers to effective market functioning

5. ASSESSING SECURITY OF SUPPLY

There is widespread recognition of a need for improved assessment of generation and security of supply in the internal market given the impact of both RES and market integration. Proposals have been made suggesting a need for more scenario analysis based on different weather conditions, different timespans for the assessment (long-term, short-term), more detailed assessment of flexibility and more coordination between TSOs and more sensitivity analysis. In this regard the existing ENTSO-E generation adequacy assessment is not felt to meet future needs, without suggesting that ENTSO-E is not carrying out its current role properly.

There is particularly strong support for more regional generation adequacy assessments combined with a common methodology for undertaking such assessments. For example France in its response states "Il pourrait notamment être utile de renforcer la cohérence à l'échelle régionale des différentes méthodes d'analyse et des scénarios produits au niveau national, souvent interdépendants. Ces analyses régionales viendraient ensuite alimenter un exercice réalisé à l'échelle de l'Union". Support for binding standards is less strong among respondents. Many of those who, in principle, would welcome common standards point to the difficulties in establishing such standards while MS retain responsibility for Security of Supply (and hence determining standards). Others (such as the Oeko institute) consider that more harmonised activities of Member states are essential in the internal market.

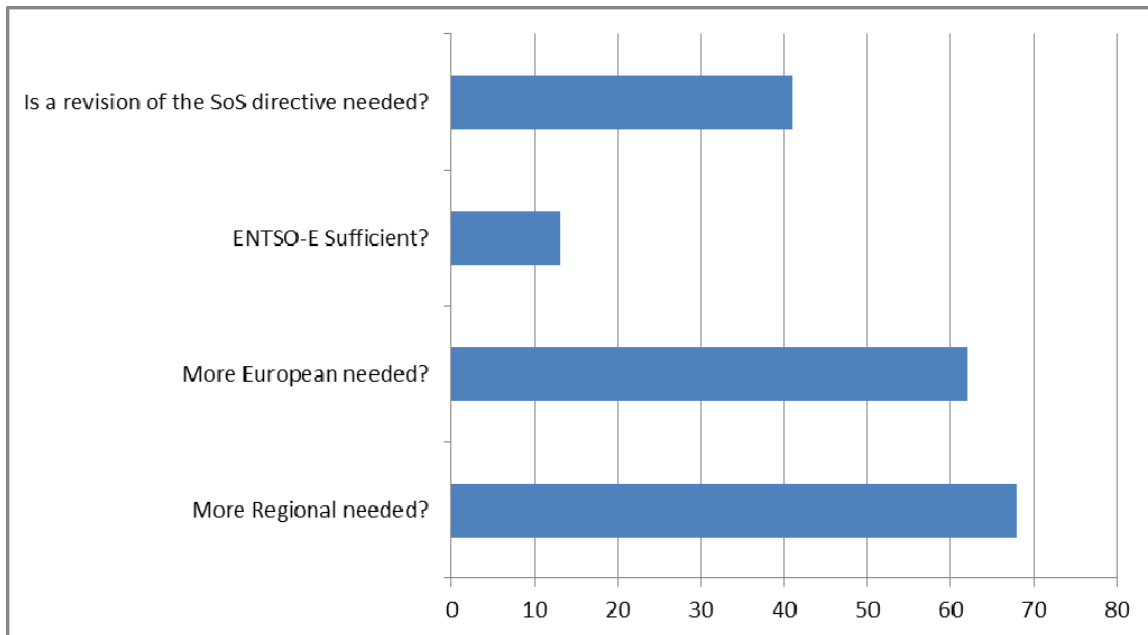


Figure 3 Assessing generation adequacy and security of supply

There was limited support for a revision of the Security of Supply directive, which was perceived to fulfil its limited role. Again France states that "Il apparaît préférable de privilégier l'élaboration rapide de ces codes et achever ainsi la mise en œuvre des dispositions du 3^{ème} paquet avant d'envisager des mesures nouvelles au travers de la refonte de cette directive." However some stated that since the Directive was adopted before the Third Package, the situation after the Third Package is different and therefore the level of cooperation prescribed by the Directive does not correspond to today's situation.

Summarising, there is widespread support for a reassessment of how generation adequacy and security of supply are assessed, and a recognition for the need for actions to be coordinated. The question which stands out is what are the best tools to do this. Here the electricity coordination group (explicitly mentioned by several respondents) can play a critical role. in the Commission will continue to examine what are the best tools available to achieve the widely supported aim of improved generation adequacy assessment.

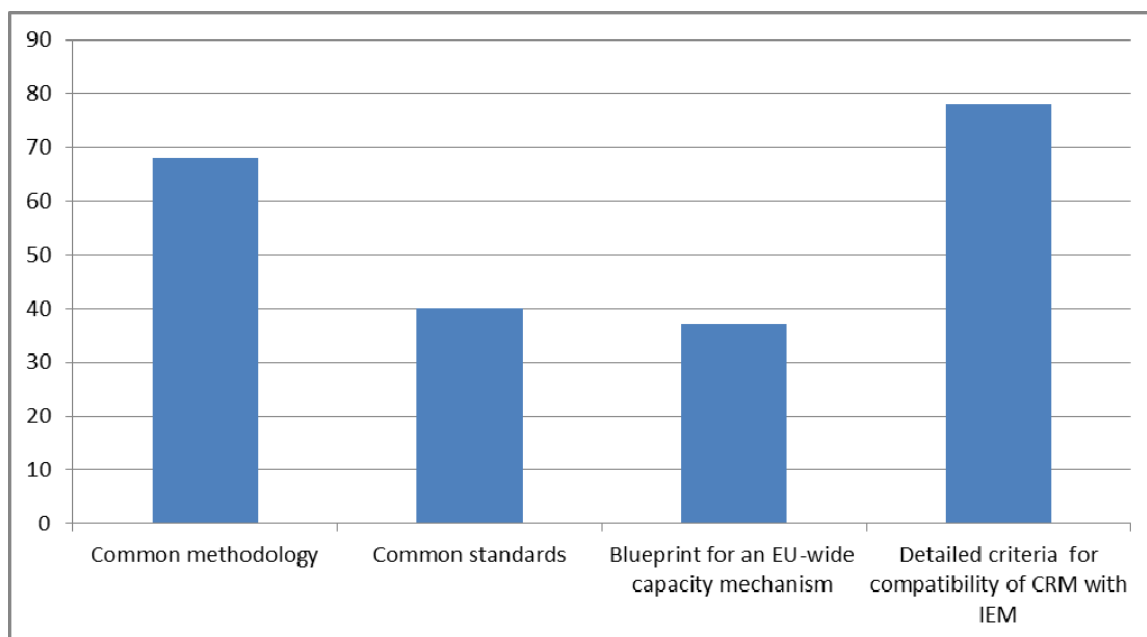


Figure 4 What needs to be done for generation adequacy assessments and for capacity mechanisms?

6. INTERVENTIONS TO ENSURE SECURITY OF SUPPLY

As already noted opinion is divided on whether energy only markets can deliver the investments which will be needed to ensure generation adequacy and security of supply in the future. However, there were even more varied opinions on the effectiveness of different capacity remuneration mechanisms.

Given this divergence of opinion therefore there is only limited support for a European blueprint, many respondents pointing to divergent local circumstances and the need to address specific problems as militating against such an approach. Against this there was very strong support, particularly among industry and academia, for EU wide criteria, governing capacity mechanisms extending also to the high level criteria which proposed in the consultation paper. Among Member States the UK specifically called for criteria to be linked to State aid assessments, and notwithstanding caution about overly detailed assessment at EU level its detailed comments on the individual criteria in the consultation paper were broadly supportive. FR states "Il est toutefois utile et légitime que la Commission européenne suive de près l'impact des choix des Etats membres sur le marché intérieur" but also cautions that "Il semble prématuré à ce stade de définir des critères détaillés de compatibilité avec le marché intérieur". DE states that the Commission "im Bedarfsfall eintreten, der die Koordinierung zwischen den MS zu einer stärker gemeinsamen ...Gewährleistung der Versorgungssicherheit erleichtert.