6 July 2016

Interim Report of the Sector Inquiry on Capacity Mechanisms: Response to the public consultation

Power markets with an increasing proportion of variable renewables can deliver the right kinds of generation capacity and other system resources to ensure stable and secure energy supply provided an adequate framework is in place. The real challenge for the European energy system is flexibility not shortages in generation capacity. This can be ensured through the better use and development of interconnections in Europe, demand side management and storage as well as better management of all system resources. Energy savings and demand management must be priority elements of a strategy to secure system adequacy, helping to reduce the need of overall generation capacity, particularly at peak loads, and to reduce the Union's fossil fuels import bills. Generally, demand-side management will help match demand and supply so that electricity consumers continue to enjoy comparable levels of system reliability over the next decades at lowest overall cost. Storage of renewable energy and energy efficiency should also be encouraged to provide capacity. Thus the rules of possible capacity mechanisms should ensure that participation of demand response, demand side management and storage of RES is possible and encouraged (power threshold, response time delay, reliability, etc.).

Moreover improving the European energy system flexibility through the better use and development of interconnections and of storage infrastructure should also be a European energy policy priority. Further integration of neighbouring balancing markets, i.e. an increased interconnection between regions and/or neighbouring power systems, contributes significantly to ensuring security of supply. The increased interconnection capacity offers the potential for all generation and capacity resources to be shared, reducing overall resource requirements and the need for State or regulatory intervention. For this to be effective it will have to be accompanied by real-time energy balancing over wider areas, reducing the effect of extreme weather events and again reducing the overall system requirements.

The integration of large amounts of renewable energy sources fluctuating into the system, new storage technologies and internal electricity market calls for a harmonised methodology to improve interconnection assessments, system flexibility and inputs - and a transparent methodology developed and implemented in a way that helps people understand the need for grid developments. Any methodology for assessing system adequacy should duly take the evolution of electricity demand into account, also looking at the effects of the EU's overall commitments and legislation related to energy

efficiency. The assessment of power system adequacy at the regional level, in a harmonised way, will help analyse whether capacity mechanisms are really needed. Moreover adequate price signals, better reflecting scarcity, would make the market develop demand and supply-based solutions, while rewarding flexibility. These price signals should address the need to secure additional remuneration of power plants, thereby making capacity mechanisms - redundant.

CAN Europe is concerned that the widespread introduction of capacity mechanisms would run counter to the EU's decarbonisation objectives, distort price and investment signals and favour fossil fuels and nuclear to the detriment of renewable energy sources, interfere with cross-border trade and competition, close national markets, distort the location of generation, and finally increase costs for all Member States.

If Member States are experiencing generation inadequacy and, as the last resort option, considering to introduce capacity mechanisms, they should show clear evidence that the market functioning is insufficient through a regional system adequacy assessment, not a national generation adequacy assessment. Potential capacity mechanisms should then respect a very clear and compulsory set of criteria. All capacity markets should be fully open to renewable energy capacity, interconnectors, demand response and storage. The carbon intensity of the resources providing capacity should be factored into the possible design of capacity mechanisms so that delivery of the overall carbon reduction targets is not compromised. Any power plant eligible for a capacity mechanism should be subject to an emissions performance standard and minimum efficiency standards. Moreover Any power plant eligible for a capacity mechanism should have the technical ability to be a mid-merit plant. Subsidies for environmentally unfriendly and highly polluting technologies should not be granted. Moreover the approach adopted to deliver reliability should not lead to unintended adverse consequences for investment in renewable energy.

Capacity mechanisms irrespective of their design, are an intervention into the market, and should therefore be dealt with in the framework of State Aid control. Any such mechanism needs to be subject to a clearly defined supply adequacy target level enshrined in EU law and should not prevent carbon intensive and inflexible power plants from leaving the market. In cases where capacity mechanisms are used, they should be reversible, interfere as little as possible with the market, and renewables, storage and demand response should be included.

Climate Action Network (CAN) Europe is Europe's largest coalition working on climate and energy issues. With over 130 member organisations in more than 30 European countries - representing over 44 million citizens - CAN Europe works to prevent dangerous climate change and promote sustainable climate and energy policy in Europe.

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