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CAN EUROPE POSITION ON CAPACITY MECHANISMS

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.

INTRODUCTION

The European Commission's legislative proposals included in the 'Clean Energy for All Europeans' package published on 30 November 2016 are as a whole **not consistent with the objectives of the Paris Agreement to keep temperature rise well below 2°C and pursue efforts to limit it to 1.5°C**, which require the immediate overhaul of EU climate and energy policies.

As part of this legislative package, the European Commission presented proposals to review the design of the internal market for electricity. The proposal for a revised electricity regulation outlines detailed rules on capacity mechanisms considered or set up by Member States. Capacity mechanisms on electricity markets are measures taken by Member States to ensure sufficient capacity in times when the supply does not match demand. Among other provisions, it sets out principles for the development of a European resource adequacy assessment to determine whether capacity mechanisms are needed in the first place. In case a resource adequacy concern has been identified, it defines under which conditions capacity mechanisms can be introduced by a Member State.

CAN Europe is concerned that the current and future 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 generation to the detriment of renewable energy sources, energy efficiency and demand side management, interfere with cross-border integration, trade and competition, close national markets, slow down improvements towards a flexible system, distort the location of electricity generation, and finally increase costs for all Member States. The establishment of capacity mechanisms also creates a serious risk of making European citizens (unnecessarily) pay to keep old, polluting, inflexible power plants in the European energy system long after they should have been retired, thereby perpetuating the overcapacity issue in the European market[1].

Meeting the objectives set out in the Paris Agreement, and avoiding dangerous climate change requires the European power sector to be fully decarbonised well before 2050. All financial support that is provided to power generation has to deliver on this decarbonisation objective as well as other EU environmental objectives such as improvement of air, water and soil quality and the circular economy.

1.The EEA study showed that extending the lifetime of existing fossil fuel plants could maintain and increase the overcapacity of fossil fuel generation from 23 to 28 % by 2030. EEA Report No 22/2016 Transforming the EU power sector: avoiding a carbon lock-in http://www.eea.europa.eu/publications/transforming-the-eu-power-sector/download

In view of the above requirements, **CAN Europe calls on the European Parliament and Council to improve the proposed legislation** by taking into account the following key political demands.

KEY DEMANDS:

- **The decision to introduce a capacity mechanism should be a last resort option, resulting from a transparent EU-wide and regional system adequacy assessment as proposed by Articles 18 (3) and 19 (4).**

  Any decision regarding the introduction of capacity mechanisms must be based on regional adequacy assessments. These assessments should be considered as the decisive factor. The European Comission's Final Report of the Sector Inquiry on Capacity Mechanisms confirms that over the last years electricity demand within the EU was decreasing while capacity generation continued to increase and that the EU as a whole is in a situation of overcapacity. Therefore, where a European resource adequacy assessment does not identify shortcomings in capacity, capacity mechanisms shall not be introduced or be phased-out where they have already been introduced.

  A transparent and non-contestable methodology for regional adequacy assessments should be developed. 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 environmental performance, in particular energy efficiency Furthermore developing interconnections, energy storage, demand-side measures and energy efficiency should be at the core of any resource adequacy assessment.

- **All capacity mechanisms must prioritise demand response, storage and energy efficiency, and also be open to cross-border participation.**

  Member States should follow a set of clear and transparent criteria in order to prioritise the most sustainable options as beneficiaries of capacity mechanisms after having consulted on the proposed mechanism at least with its electrically connected neighbouring Member States. The flexibility and generation adequacy issue should not only be considered from the generation side, but also from the demand side. 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 the lowest overall cost. Storage of renewable energy and energy efficiency should also be encouraged. To achieve its climate and energy goals, Europe must improve cross-border electricity interconnections. Connecting Europe's electricity systems allows the EU to boost its security of electricity supply and to integrate more renewable energy. Therefore the completion of Commissions electricity interconnection targets should be an obligatory condition prior to approving a capacity mechanism in a given Member State. Improving the European energy system flexibility through the better use and development of interconnections, of demand-side management schemes and of storage infrastructure should be a European energy policy priority and therefore be reflected in the provisions of the revised regulation on the Internal Market for Electricity.

- **The Emission Performance Standard for capacity mechanisms set in art.23 (4) has to be tightened and must immediately apply to all existing plants.**

  Capacity payments should not be used as a backdoor subsidy for fossil fuels. The proposal made by the European Commission leaves the door wide open. Meeting the objectives set out in the Paris Agreement requires a rapid decarbonisation of the power sector. Furthermore, according to recent research, in order to stay in line with the Paris Agreement under a least-

cost strategy, the EU needs to phase out coal already by 2030[2]. Allowing any subsidies to carbon-heavy coal plants would be a clear contradiction to the Paris Agreement. It would also unnecessarily lock energy systems into fossil fuels and hinder the transition to 100% renewable-energy based and fully energy efficient economies.

The Emission Performance Standard (EPS) as currently proposed will leave the option open to subsidise some relatively high efficient coal (and potentially lignite) electricity production with heat recovery (i.e. combined heat and power) and/or biomass co-firing plants. This proposal directly puts the EU climate commitments in jeopardy. Thus it is crucial to tighten the level to 350 gCO2/kWh and make sure that this level decreases over time.

Furthermore, the Emission Performance Standard must apply immediately to all existing generation capacity. The wording currently included in the Commission proposal would allow not only all of the existing coal plants, but also those under construction, to be eligible for capacity mechanisms for roughly another decade. This could lead to using capacity mechanisms as a lifeline for inefficient, inflexible, unreliable, and unnecessary coal plants across the EU. Continuing to subsidise coal plants that in 2016 were responsible for about 40% of EU ETS emissions is unacceptable and would undermine the EU's decarbonisation objectives.

- **A reference to Europe's decarbonisation objectives should be inserted (Art. 18) and technical requirements on flexibility, efficiency and air quality should be included (Art. 23).**

  At the moment, proposed provisions do not include any environmental criteria other than the Emissions Performance Standard, whereas the EU pledged to remove any environmentally harmful subsidies by 2020 at the latest. As a minimum, capacity mechanisms should help deliver on European and national decarbonisation objectives. Article 23 should also be strengthened. First, it must require participating power plants to comply with European air quality standards, including the Industrial Emissions Directive's (IED) Best available techniques Reference documents (BREFs). Second, to have a minimum technical flexibility (e.g. minimum ramp rates and start times), with a view to the energy transition, it is key that interventions in support of system adequacy incentivise flexible technologies. Thirdly, capacity mechanisms principles must also require compatibility with all relevant objectives set under the EU environmental protection acquis, inter alia the relevant EU Environmental Quality Standards for air, water, resource efficiency and Sustainable Development Goals.

  Fourthly, capacity mechanisms should promote the most energy efficient installations, within minimum efficiency thresholds promoting combined production of heat and power over electricity-only installations.

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2 http://climateanalytics.org/files/climateanalytics-coalreport_nov2016_1.pdf