CONFEDERATION OF INDUSTRY
OF THE CZECH REPUBLIC

PRAGUE, 16 JUNE 2016

Cezch Confederation of Industry (SP) comments on the EC interim report of the sector inquiry into capacity mechanisms

SUMMARY

SP supports the transition towards an internal market-based electricity market. The Energy-only electricity market (EOM) should remain the European target mode. Standard market coupling should be applied to all borders in EU including Austria-Germany border. Capacity Remuneration Mechanism (CRM) should be available in the new market design when it provides a valued service for the consumers (security of supply). May a CRM be implemented in any EU state or region, it has to be the least distorting one, and it has to be market-based, technology-neutral, open to cross-border participation, and allow for the participation of demand response and storage. Allowed CRMs have to be appropriate for ensuring just a pre-defined adequacy standard level based on a harmonized adequacy assessment method. As the most relevant complementary tool to the EOM, a capacity reserve operated strictly outside of a wholesale market and dispatched at prices equal to the value of loss load (VOLL) is to be considered.

EC SECTOR ENQUIRY ON CRMs: NOT ONLY 11 MEMBER STATES BUT THE WHOLE EU SHOULD BE ASSESSED

In April 2015, the Commission launched sector inquiry on CRMs. The inquiry of the Commission focused only on the existing and planned CRMs in 11 Member States. We emphasize that all Member States should be consulted and have equal access to information, given the fact that the Commission will "*develop legislative proposals on a revised electricity market design*", based on a final report. Any new market design should not be based only on the experiences of some Member States.

FIT THE MARKET TO RENEWABLES AND FIT RENEWABLES INTO THE MARKET

Generation from renewable energy sources (RES) is maturing and will gradually comprise larger and larger proportion of overall installed capacity. That´s why complete integration of the RES into the market is an

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imperative and in the SP view there should be balancing obligation and no support for new RES whenever the wholesale power prices are negative as stated in the latest State Aid Guidelines.

To secure that no harmful interference occurs within the wholesale market under any market design, natural price spikes must be explicitly allowed, particularly at times of scarcity as these prices provide incentives for demand response, storage, flexibility of generation capacity, and for imports and exports within the internal electricity market.

The SP supports improving short term markets (namely moving gate closure time closer to real time delivery or allowing shorter term product) together with a market coupling across all regions.

BIDDING ZONES SHOULD NOT DISCRIMINATE AGAINST MARKET PARTICIPANTS AND MARKET COUPLING HAS TO APPLY TO ALL BORDERS

According to the report electricity prices do not send the right signals for matching local supply and demand, because Germany, together with Austria and Luxembourg, forms a single bidding zone which means that the price for electricity is the same across this entire area. SP agrees with this observation and takes the opportunity to add that the single bidding zone discriminates against electricity traders, producers as well as customers from neighbor countries and endangers safe operation of transmission networks in neighbor countries including the Czech Republic.

ACER found already in 2014 that existing electricity bidding zones configuration in Central Europe was affecting the efficient use of the infrastructure, the incentives to invest in both transmission and generation, and the liquidity of forward markets, in Report on the influence of existing bidding zones on electricity markets. In its Opinion 09/2015 ACER has taken a view that implementation of a capacity allocation procedure on the DE-AT border is required pursuant to Article 16(1) of Regulation (EC) No 714/2009 and points 1.2, 1.4 and 3.1 of Annex I to this Regulation. SP calls on the Commission to act on the Opinion 09/2015 by ACER in order to enforce EU legislation and protect justified interests of the producers, traders and customers in the Czech Republic.

ENERGY ONLY MARKET IS A PRIORITY WHEREAS MINIMUM CONDITIONS FOR CRMs ARE DESIRABLE TO BE COMPATIBLE AND NON-DISTORSIVE IF IMPLEMENTED IN THE FUTURE

SP has always supported and still supports the initial intention of the European Commission to create an EU-wide internal electricity market (energy only market concept). This target is being hampered especially by different capacity remuneration mechanisms being currently used or considered in 11 Member States. We see urgent need to achieve a state of legal certainty, i.e. the existence of clear and enforceable rules based on which each particular CRM is ex ante either a proportional and appropriate state aid necessary to ensure generation adequacy or forbidden.

SUGGESTED BASIC REQUIREMENTS FOR AN ELIGIBLE CRM

Security of supply concerns

The shift towards more renewable energy production is accompanied by the need of predictable generation capacity that would be (together with a flexible demand) available at times of scarcity. Some EU Member States are concerned that the electricity market may not produce the investment signals needed to ensure the electricity generation mix is able to meet demand at all times, and provide enough flexible sources (and flexible demand) needed to back up intermittent renewable generation. SP expressly supports the development of market-oriented approaches to security of supply.

Generation adequacy and CRMs

In case all alternatives to improve the proper functioning of the EOM have been implemented and did not work, Member States should first determine the risk of not-achieving the pre-defined adequacy standard level, based on harmonized adequacy assessment method. Only than shall the Member States consider a CRM that is appropriate for ensuring just this level of generation adequacy. This is in line with a striking observation of the state of art situation made by the Commission: "*…regulatory decisions on capacity markets are not sufficiently evidence-based and most capacity mechanisms are not tailor made to secure the capacity shortfall identified by an adequacy assessment compared against a reliability standard based on VOLL*".

The absence of common methods to define generation adequacy and reliability standards makes it difficult to assess the necessity of the existing and planned capacity mechanisms and makes international coordination difficult as Member States have a different perception of the actual problem. No comparison between the Member States can be made as to their relative generation adequacy without fully exploring the individual methodologies used. As a result, Member States cannot simply rely on the assessment of neighbouring countries and use that as input to their own assessment. A common adequacy methodology should be binding for the EU institutions when assessing compliance of capacity mechanisms with the EU rules. As such, its geographic scope should be based on reality-checks and generally should start at the national level.

Design of CRMs

SP generally agrees with the criteria for CRMs as mentioned in section 3.9 of Guidelines on State aid for environmental protection and energy. We would like to particularly stress that no form of discrimination should be allowed. The scheme has to be technology neutral, open to cross-border participation, and allow for the participation of demand response and storage.

Whatever CRM, its participants should be selected via a transparent market based approach. The two obvious potential candidates for CRMs are capacity markets and strategic reserves. Strategic reserves are well-known tools, can be quickly introduced into and removed from the system and as such, they can provide needed time for the EOM restoration.

Capacity market provides early shortage signals before physical emergency occurs. However, it heavily affects the wholesale market as it decreases wholesale market prices by removing price peaks from the market. In contrast to the strategic reserve, once implemented, it is extremely difficult to remove it due to long-term obligations.

SP is persuaded that in all cases, capacity mechanisms must be carefully designed with specific attention to transparent and open rules of participation and a capacity product that does not undermine the functioning of the wholesale electricity market. In particular, electricity prices should continue to provide a signal of scarcity so that electricity is imported from other Member States at the right times. As administrative allocation processes are unlikely to reveal the true capacity value and are therefore unlikely to be cost-effective, competitive allocation processes should be the only possible option.

Foreign capacity providers

SP is of the opinion that there is a possible risk of discrimination of foreign capacity providers against national ones when reserving and paying for transmission capacity. The common approach rules should reflect the equal access for all capacity providers. The inclusion of cross-border participation is also in line with the Energy Union objective to ensure a fully-functioning and interconnected energy market.