


Capacity Mechanisms

European Commission proposal		
Article 21.1 Mechanisms other than strategic reserves shall be open to direct participation of capacity providers located in another MS.	Electricity Regulation	≈
Article 23.4 An EPS of 550 g CO ₂ /kWh applies for new generation capacity and existing generation capacity.	Electricity Regulation	✗
Article 24 Existing capacity mechanisms shall be adapted to comply with the regulation.	Electricity Regulation	≈

Energy, flexibility and availability of capacity need to be valued

To make the market design fit for the low-carbon transition, energy, flexibility and the availability of capacity need to be valued adequately in the market. Well-designed capacity mechanisms should ensure that the firm capacity needed (generation, storage, demand response) for security of supply is maintained or invested in.

Well-designed capacity mechanisms to ensure security of supply in a cost-efficient way

To facilitate a European coordinated approach, the Regulation should establish principles for the implementation and design of capacity mechanisms: they should be **market-based** (e.g. valuing availability of capacity) **technology neutral** (open to generation, demand response and storage), **open to existing and new assets**, as well as **open to cross-border participation**. While existing contracts should be respected to avoid negative impact on investment decisions, Member States should be encouraged to adopt transitional measures to adapt capacity mechanisms towards a design compatible with the State Aid Guideline.

Capacity mechanisms are a tool in themselves for regional adequacy assessment

Where they exist, capacity mechanisms are also a tool in themselves for the regional adequacy assessment. Indeed, they contribute to revealing the adequacy situation by explicitly valuing the capacity that is needed to ensure the adequacy target and by identifying the capacity that is not needed. For instance, if enough capacity is economically viable in the system and able to ensure the adequacy target, the capacity price will tend towards lower levels.

A CO₂ Emission Performance Standard will not deliver a cost-efficient low-carbon transition

The power sector is committed to achieve carbon-neutral electricity supply by 2050 and does not intend to invest in new-build coal-fired power plants after 2020¹. The CO₂ EPS in capacity mechanisms should be removed as it **weakens the EU ETS and could have unintended consequences on competitiveness, decarbonisation and security of supply.** Such market interventions also **undermine investors' confidence.** The impact of an EPS will not be limited to baseload coal and lignite. In some countries, the CO₂ EPS will impact peaking plants, including flexible gas-fired power plants.

¹ The reference to the sector's intention not to invest in new-build coal-fired power plants after 2020 is not supported by the Polish and Greek member associations.

Key proposed amendments

Article 21.1

Capacity mechanisms ~~other than strategic reserves~~ shall be open to direct participation of capacity providers located in another Member State provided there is a network connection between that Member State and the bidding zone applying the mechanism

Electricity
Regulation

Justification

Cross-border participation should apply to all types of mechanisms aimed at ensuring security of supply, including strategic reserves.

Article 23.4

~~Generation capacity for which a final investment decision has been made after [OP: entry into force] shall only be eligible to participate in a capacity mechanism if its emissions are below 550 gr CO₂/kWh. Generation capacity emitting 550 gr CO₂/kWh or more shall not be committed in capacity mechanisms 5 years after the entry into force of this Regulation.~~

Electricity
Regulation

Justification

Market-based mechanisms such as carbon markets are the most cost-effective and efficient tool for mitigating greenhouse gas emissions and stimulating investments in low carbon technologies and energy efficiency. Only the combination of an effectively reformed EU ETS and improved EU electricity market design can lead to sustainable and credible carbon price signals to drive investments to mature low carbon technologies. The CO₂ EPS for capacity mechanisms should therefore be removed from the Electricity Regulation.

Article 23.6 (new)

Where implemented, capacity mechanisms shall be well designed: market-based, open to generation, demand response and storage, technology-neutral, open to existing and new assets and open to cross-border participation

Electricity
Regulation

Justification

The Regulation should rather establish principles for the implementation and design of capacity mechanisms as part of the electricity market design. This would facilitate a European coordinated approach on capacity mechanism as demonstrated in the DG COMP final report on the sector enquiry.

Article 24

Member States applying capacity mechanisms on [OP: entry into force of this Regulation] shall **publish a timeline for adopting measures** to adapt their mechanisms to comply with Articles 18, 21 and 23 of this Regulation.

Electricity
Regulation

Justification

Whereas existing capacity mechanisms implemented before or under the Energy and Environmental State Aid Guidelines (EEAG) must be respected to avoid negative impact on investment decisions, EURELECTRIC would welcome transitional measures by MS to adapt in a reasonable timeframe those mechanisms towards a design compatible with the EEAG.