



Electricity market

Several French stakeholders are emphasising the importance of a capacity mechanism and call for more clarity on its implementation

THE CHALLENGE: GUARANTEEING A SECURE ELECTRICITY SUPPLY FOR ALL CONSUMERS

The European market must provide all consumers with a competitive, safe and sustainable electricity supply. Yet, although the energy market is **clearly demonstrating its efficiency in the short term** by revealing the value of energy on an hourly basis, **it is not offering market players the transparency or the incentives they need to maintain required capacities and invest in new assets or demand management solutions**, to guarantee the security of supply sought by France and other Member States.

The security of supply for French and, ultimately, European consumers is, therefore, at risk.

This is why the signatories of this Declaration are convinced of the need for a capacity mechanism to complement the energy market in their support for potential improvements to its operation.

Our request...

A capacity mechanism to complement the energy market

A pragmatic approach already adopted in Europe

The majority of EU's Member States have already introduced capacity mechanisms to complement the energy market and guarantee the security of supply.

This common practice clearly illustrates the need for such systems. In countries with which France is directly interconnected, examples include: **the Spanish capacity payment, the Italian capacity payment** (soon to be replaced by a capacity market based on the '*reliability options*' concept), **the Belgian strategic reserve, the German strategic reserve** (consisting of a technologically neutral '*capacity reserve*' and a '*climate reserve*' involving coal-fired plants exclusively), and **the British 'Supplemental Balancing Reserve' and capacity mechanism**. Other European countries have also introduced, or are in the process of setting up, capacity mechanisms, including Greece, Ireland (capacity payments), Poland, Sweden and Finland (strategic reserves). Of further note, the French capacity mechanism is one of the few to allow demand to play a role alongside generation.

The French initiative to introduce a capacity mechanism with its own specific characteristics is, therefore, far from being an isolated case and, **contrary to popular misconception, the 'energy only market' is not the dominant market system in Europe.**

The same analytical framework for all mechanisms in Europe

In order to address this security of supply issue, competition regulators and authorities must develop a coherent analytical framework that can be applied in a systematic and non-discretionary way.

The signatories, representing stakeholders throughout Europe, request that all mechanisms introduced to complement the energy market should be analysed on an equal footing, based on the same analysis grid.

This will **prevent any form of discrimination between the measures** taken and will underpin the **legal security** associated with the European regulations applicable to capacity mechanisms.

The discussions, consultations and enquiries (sectoral and in-depth) currently under way are providing the European Commission with a unique opportunity for developing such a shared analytical framework.

Do not penalise France

With market prices expected to remain low for the long term, and with no clear immediate signal of the introduction of a capacity mechanism **in France, market players will be forced to:**

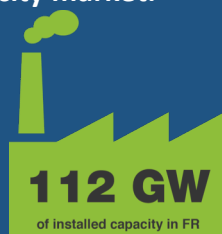
- **shut down some of their generation assets, either temporarily or permanently,**
- **scale down their investment programmes in new assets and demand response solutions.**

In the short term, this situation has the potential to compromise the security of supply.

In accordance with the general principles of legal certainty and legitimate expectations under Community law, **the signatories of the Declaration are asking that the European Commission:**

- **make every effort to bring forward the deadline for reviewing the current investigation on the French capacity mechanism,**
- **give market players a quick and clear signal, by making a decision in favour of the introduction of the capacity mechanism as soon as possible.**

The signatories in support of this request include the majority of players operating in the French electricity market.



These stakeholders also include, or represent, European companies operating within several Member States, notably Belgium, the Netherlands, Germany, the UK, Spain and Italy. This gives them a supranational perspective of the issues underlying the current debate on 'market-design' development.