



Union Française de l'Électricité

## State Aid SA. 45852 (2017/N) – Germany

# Capacity Reserve

The Union of the French Electricity industry (UFE) welcomes the opportunity provided by the European Commission for stakeholders to comment on the State Aid procedure SA.45852. With this procedure, the Commission provides valuable public information about the details of the planned Capacity Reserve in Germany. As the evolutions of the market and regulatory framework in Germany is of particular importance to French stakeholders, UFE would like to express the following comments.

1. UFE supports all the improvements that can be made on the energy market, including on intraday and balancing markets. Nevertheless, even with decapped energy markets allowing high scarcity prices, one cannot ensure that the capacities developed or maintained in operation by market players, exclusively on the basis of energy price signals, will be sufficient to meet the security of supply targets defined by Member States. **Well-designed capacity mechanisms can therefore be necessary.**

UFE shares the view expressed by the Commission in the Report of the Sector Inquiry on Capacity Mechanisms that “*central buyer mechanism and de-central obligation mechanisms are the options that appear to be more appropriate to address a long-term, general problem of generation adequacy*”. Furthermore, as noted by the Commission in point (160), “*where a well-designed market-wide capacity is implemented, the fact that the price can reach zero ensures that when the measure becomes less necessary, its cost also declines, potentially until zero. A strategic reserve however can continue to cost money even when its added value to security of supply declines.*” Therefore, **strategic reserves should only be implemented as temporary measures**. For this reason, UFE shares the Commission’s concerns about the fact that Germany’s Capacity Reserve does not contain an end date or phase-out plan and appears to be intended as a permanent feature rather than a temporary measure.

2. UFE considers that **all capacity mechanisms, including strategic reserves, should be technology neutral**, allowing all types of capacities to compete on equal footing. As noted by the Commission in points (49) and (136-140), Germany’s Capacity Reserve appears to de facto exclude demand response, despite the fact that demand response has the potential to play a growing role in market efficiency and security of supply. It should also be noted that specific generation technologies could also be de facto excluded. In UFE’s view, excluding any type of capacity is discriminatory and, by limiting effective competition, increases the total cost of the mechanism.
3. **Regarding cross-border participation, UFE considers that the same requirements should apply to all Member States and to all types of capacity mechanisms.** From this perspective, UFE supports the views of the European Commission that the reservation of cross-border transmission capacity is not a pre-requisite for cross border participation in strategic reserves (146). Therefore, recalling that cross-border had been deemed mandatory by the Commission for market-wide mechanisms, UFE considers that it should apply similarly to strategic reserves.

*The Union Française de l'Electricité (UFE) is the trade association for the French electricity sector. It represents employers in the electricity and gas branches of the industry, and defends the interests of its members, generators, system operators or electricity and energy efficiency suppliers, in the economic, industrial and social field.*