



# JOINT STATEMENT

## EU POWER ASSOCIATIONS CALL FOR AN UPDATED EU ENERGY MARKET DESIGN



The energy transition requires us to think whether the current electricity market design can efficiently meet the **decarbonisation target** while ensuring adequate level of **Security of Supply at a least cost**.

In the last years, short-term wholesale electricity prices have fallen drastically, as a result of a reduction in demand due to the economic crisis, the financially supported introduction of new low-carbon generation capacities with low variable costs, low commodity prices, and a very weak carbon price signal. They are now far below the long-term LCOE of conventional and RES power plants.

**Some of these conditions affecting short-term energy only markets are persistent and bound to be exacerbated as the decarbonisation process moves forward.** Scarcity pricing and the introduction of a liquid European intraday market are no-regrets reforms. However a market design relying only on short term prices and a poor CO<sub>2</sub> price will fail to trigger an efficient investment path, for a secure European energy transition. Short term prices, which define the generator's revenue and the consumer's bill, are too volatile and sensitive to both macroeconomic indicators and public decisions.

The European market must provide all consumers with a competitive, secure and sustainable electricity supply. For this reason two measures should be considered a priority: a **functioning ETS in line with the EU climate policy ambitions**, and the implementation of **capacity mechanisms ensuring the achievement of the targeted level of security of supply**.

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### **WE URGENTLY NEED AN UPDATED EUROPEAN MARKET DESIGN, BASED ON A COMBINATION OF MARKETS ABLE TO REVEAL THE VALUE OF BOTH ENERGY AND CAPACITY**

Our associations therefore welcome the Commission's decision in summer 2015, to review the EU energy market design, and would like to emphasize the crucial elements from the power's sector perspective.

### **WE NEED EFFICIENT, MARKET-BASED CAPACITY MECHANISMS ABLE TO DELIVER LONG TERM PRICE SIGNALS TO COMPLEMENT THE ENERGY MARKET**

The majorities of EU Member States have already introduced or are considering the introduction of capacity mechanisms as a necessary tool to guarantee security of supply by complementing short-term energy markets. The generalization of such practices in Europe illustrates the need for such mechanisms to deal with security of supply concern:

1. **They are an integral part of the future Energy market:** revealing the value of capacity in the short and long run, they allow efficient investments and/or divestment decisions
2. **They incentivize the availability of capacities** that are essential to ensure EU's security of supply, and provide back-up as intermittent renewable plants increase their market share
3. **They complement energy-only market signals (especially scarcity prices), by providing greater predictability on long-term revenues:** a capacity mechanism creates an "investment-friendly" market environment leading to cost reductions in the long term, to the benefit of consumers.
4. **They contribute to enhancing competition by allowing the participation of new market entrants** (e.g. demand response and new generation capacities)
5. **They can kick start demand response and storage at least cost** for a more adjusted and balanced electricity mix
6. **They take into account cross-border interactions**

#### **WE URGE THE EUROPEAN COMMISSION TO RECOGNIZE THE NEED FOR THE SWIFT IMPLEMENTATION OF SUCH MECHANISMS**

They should be distinguished from non-market based interventions that could permanently harm the functioning of the internal energy market. Without a swift introduction of capacity mechanisms able to deliver adequate long term price guidance, operators would receive inappropriate market signals to close or "mothball" capacity which may prove to be necessary and cost efficient for security of supply. Investors would also scale down their investment programs in new assets and demand response solutions.

#### **WE NEED A CONSISTENT FRAMEWORK WHOSE APPLICATION MUST BE SYSTEMATIC AND NON-DISCRETIONARY**

The European Commission, in cooperation with Member States and National Regulatory Authorities, should safeguard consistency between national approaches, and pave the way towards a strengthened European cooperation for security of supply. We acknowledge in particular the attention paid by the Commission to these developments, especially regarding cross-border interactions. On this matter, regulators, TSOs and market operators are already conducting thoughtful processes concerning the best solution for taking into account such interactions in an adequate way.

#### **WE SUPPORT THE IMPLEMENTATION OF REGIONAL CAPACITY ADEQUACY ASSESSMENTS, IN ADDITION TO NATIONAL ASSESSMENTS**

These regional assessments should reinforce the convergence of the methodologies used by the Member States, for a better understanding of capacity adequacy need at regional and European level. However, based on current methodologies, such generation adequacy analyses, including the ones conducted by ENTSO-E cannot demonstrate nor refute the need for capacity mechanisms. They don't take into account the economic and regulatory environment in which market players make their investments and decommissioning decisions, which is an essential parameter for predicting long-term adequacy. Extreme climate conditions and the temperature sensitivity of demand are also crucial aspects left apart from current adequacy assessments. Furthermore, a well-designed capacity mechanism should send the right signals not to induce the development of unnecessary capacities, regarding the chosen level(s) of security of supply.

#### **WE SUPPORT A STRENGTHENED COORDINATION OF CRMS IMPLEMENTATION AT A EUROPEAN LEVEL**

Our associations support DG Competition's proposal to develop a common set of principles according to which capacity mechanisms should be designed, including cross-border interactions. However, we believe that a "one size fits all solution" won't be viable: the heterogeneity of the capacity related approaches implemented in Europe is related to national specificities, notably regarding the nature of security of supply risks and electricity market conditions in each country (peak consumption, widespread use of renewable energy, difficulties related to investment cycles). Thus, we are convinced that such specific approaches could be rapidly implemented in line with European legislation, while also positively contributing to the Internal Energy Market.