



## JOINT STATEMENT ON CAPACITY MECHANISMS

December 2017



We, associations representing electricity companies from 8 countries with different energy mixes, are fully committed to making the energy transition in Europe a reality.

We welcome the “Clean Energy for all Europeans” package, which notably aims to make electricity market design capable of delivering the EU’s decarbonisation targets. We consider that ensuring security of supply in the most cost-efficient way is essential for the energy transition to succeed, and cannot be put at risk.

The improvement of short-term markets and the development of system flexibility are certainly “no-regret” options to improve market price signals. However, the current proposals made in the Council of the European Union and the European Parliament will not provide the long-term price signals necessary to guarantee the investments required to ensure the continuity of energy supply to all Europeans in a cost-efficient way.

**We therefore call on policy makers to allow swift implementation of capacity mechanisms as a complement – not alternative – to short-term market reforms. Such mechanisms should be tuned to the adequacy issues that have to be solved, e.g. capacity markets for structural risks and strategic reserves for temporary risks. All types of capacity mechanisms should comply with basic design principles, e.g. capacity markets should be market-based, technology neutral (open to generation, demand response and storage), open to existing and new assets, and they should allow cross-border participation.** We welcome the European Commission’s inquiry report published in November 2016, which acknowledged that well-designed capacity mechanisms that respect these criteria are compatible with the Environmental and Energy State Aid Guidelines and well-functioning markets.

**We consider that capacity mechanisms are an integral part of the electricity market design and that their need should not have to be justified every year. Having capacity mechanisms dependent on the results of an adequacy assessment that can vary on a yearly basis defeats the purpose of such mechanisms. Such a provision is likely to create a “stop-go” phenomenon that would undermine the adequate visibility for new investments and maintaining existing assets necessary to meet security of supply objectives. For the same reasons, limiting capacity contracts to one year would be unnecessarily restrictive.**

We agree, however, that capacity mechanisms parameters should be subject to periodical review to ensure their efficiency. Well-designed capacity mechanisms will in particular ensure that only the capacity strictly needed for security of supply is maintained or delivered, and that capacity price signals are consistent with the required level of security of supply.

**We call for complementary adequacy assessments, to be performed at different levels.** All adequacy assessments, irrespective of whether they are performed by national, regional or European entities, should take into account interconnected systems and cross-border contributions. In this light, the adequacy study to be performed by ENTSO-E is welcome, as it should help to ensure consistency between the various adequacy assessments.

However, we are concerned about the proposal to condition the implementation and application of capacity mechanisms to the EU-wide adequacy assessment to be performed by ENTSO-E. Such an assessment is unlikely to be sufficiently granular to integrate all the national specificities, **but above all we believe the decision-making for implementing capacity mechanisms should not be dissociated from the political responsibility for security of supply.**

**As the Member States are ultimately responsible for ensuring security of supply to citizens, we do not see the rationale in moving the decision making process to ENTSO-E. Therefore, Member States should bear the final responsibility for the decision to introduce capacity mechanisms.** Such decisions should be based on complementary assessments to be performed at national, regional or European level (with the technical support of ENTSO-E). Should the outcome of an adequacy assessment used by a Member State substantially differ from the one performed by ENTSO-E, Member States should report and justify those differences.

