

---

## **EU THROWS IN THE TOWEL OVER NATIONAL ENERGY SUPPORT SCHEMES**

-

23.11.2016

---

23.11.2016

EurActiv

EU member states have pressed ahead with a variety of schemes to remunerate energy generators for keeping power plants on stand-by, despite warnings from Brussels. It now seems certain that such capacity mechanisms will remain a fact of life, at least for the foreseeable future.

When it opened its initial consultation in July 2015 on a new design for Europe's electricity market, the EU executive called for an effective regulatory and governance framework which reduces the need for interventions such as capacity mechanisms.

The European Commission had in mind national schemes that effectively pay the owners of power plants, many of which might otherwise be unprofitable, to continue operating them in the interest of security of supply, in order to keep the lights on.

Officials from the Commission's energy directorate have been warning for years that such interventions could lead to the fragmentation of the planned single European market for electricity, even before it is completed.

However, many member states have pressed ahead with a variety of schemes to remunerate generators for keeping power plants on stand-by. It now seems certain that capacity mechanisms will be a fact of life, at least for the foreseeable future.

This is confirmed by a leaked draft of a forthcoming proposal for a new electricity market design, part of a Winter Package of legislative proposals due to be published on 30 November.

Rather than block such market interventions entirely, the Commission appears to have chosen to push for strict limits on capacity schemes, and ensure that they are open across national borders. The energy directorate also looks set to call for regional, rather than a purely national, assessments of generation adequacy.

Environmentalists have criticised capacity mechanisms for effectively allowing member states to subsidise the construction of fossil fuel plants remaining on stand-by, in case the wind is not blowing or the sun not shining.

But the electricity industry argues there is a value to that.

I think the flexibility to make sure electricity is there at the moment you need it has a value. And that is irrespective of whether the energy comes from coal, wind, solar, nuclear or hydro, said

Hans Ten Berge, the secretary-general of Eurelectric, the EU association of power producers.

So having a capacity price is not necessarily a subsidy for fossil fuel plants, this is nonsense. It can also be done by reducing your demand or with renewables, foreign capacity, storage – whatever you have, Ten Berge told EurActiv in an interview.

## EURELECTRIC BOSS: ORCHESTRATED POWER MARKETS MUST END

If European Union leaders don't believe markets can work, then there's no point having a carbon price to encourage renewable energies. And the energy market will always be orchestrated by national governments keeping fossil fuels subsidised, says Hans Ten Berge.

EurActiv.com

### Europe-wide probe

The EU's reform of national energy support schemes comes against the backdrop of a sector inquiry into capacity mechanisms, launched by Competition Commissioner Margrethe Vestager in April last year.

The first concrete result of the new probe came this month with the approval of a French capacity mechanism. Under the scheme, generators are issued with tradeable certificates that suppliers are obliged to buy to cover the peak demand of their customers. France was required to revise its plan, however, notably by opening the scheme to generators outside France.

It is the first mechanism to explicitly include and remunerate foreign capacities, thereby also contributing to building an Energy Union in Europe, Vestager's office said.

The competition directorate's inquiry initially focused on 11 countries that either had or were planning to implement some form of capacity mechanism: Belgium, Croatia, Denmark, France, Germany, Ireland, Italy, Poland, Portugal, Spain and Sweden.

An interim report issued in April this year concluded that member states need to be more thorough in assessing whether such schemes are cost-effective or distort the market, and indeed whether they are necessary at all. However, the EU executive would divulge no specifics of possible further infringement probes.

We cannot prejudge the opening of any further investigations at this stage, a spokesman told EurActiv. Nor would the Commission confirm whether its final report will be released along with the Winter Package, saying only that it would be out before the end of the year.

### UK capacity auction

In fact, a UK capacity auction scheme had already received approval from EU competition officials before the sector inquiry was launched. The second auction under the British scheme, held last December, saw the scheme opened to capacity outside the UK. It resulted in contracts awarded for a total of 1.9 GW of capacity via two high-voltage undersea cables (BritNed to the Netherlands and the IFA to France).

Even combined, this represented less than 1% of the capacity procured in the auction. By contrast, some 4.4 GW went to coal-fired plants, while the largest share – almost half of the 46 GW of capacity – went to existing gas-fired plants.

UK regulator Ofgem said in a report published just weeks before the Brexit vote in June that it can be expected that interconnectors will potentially play a larger role in future capacity market auctions.

Eurelectric boss Hans Ten Berge believes this provides an interesting way forward to Europeanise the market for capacity mechanisms.

If the capacity is delivered from abroad through an interconnector, you should give the same capacity value to these plants or demand response from abroad as you would give to a gas plant within your borders, he said.

### New rules

The UK auction scheme came under fire from environmentalists, who said the governments technology neutral approach favoured fossil fuel plants over green solutions such as wind generation, or demand side response schemes aimed at reducing consumption rather than boosting production. Moreover, the clearing price of £18/kW/year was seen as too low to encourage investment in new, cleaner power plants.

What the leaked documents from the Commissions Winter Package have to say about plans for capacity mechanisms has also provoked an angry response. The draft rules would permit capacity mechanisms where they are deemed necessary to ensure security of supply, and would allow the use of all resources capable of meeting the needs for electricity supply.

The Luxembourg Green MEP Claude Turmes argued that this could pave the way for state support to polluting coal-fired generation and jeopardise the goal of increasing the share of renewable power.

### LEAKED EU ENERGY PACKAGE SUBSIDISES FOSSIL FUELS, UNDERMINES RENEWABLES

EXCLUSIVE / The EU claims to be promoting an ambitious agenda at the Marrakesh climate conference, but its latest piece of energy legislation could subsidise new coal capacity and undermine market access for renewables. EurActiv France reports.

EurActiv.com

Poland, which relies on coal for over 80% of its power generation, has long been pushing for the right to implement a state scheme to support domestic coal-fired generation. The right-wing Law and Justice (PiS) government held in July a public consultation on a planned capacity market in which the first tender could be launched as early as 2017.

We have to call on the European Commission for a system of financing conventional generation. If we do not build around 7 gigawatts of new capacities in six years, then we will have to \* electricity consumption, argued Krzysztof Tchorzewski, Polands energy minister.

### POLAND NEEDS CAPACITY MARKET TO AVOID POWER SHORTAGES, SAYS MINISTER

Poland needs a power capacity market to help coal-fired power plants compete with producers of renewable energy and to avoid power shortages, the energy minister said on Wednesday (18 May).

EurActiv.com

Even Eurelectric, the EU power sector trade association, believes strict limits should be placed on national capacity schemes, because they undermine efforts at building an EU power market.

We have to be careful with strategic reserves that get oversized and used to build new capacity, said Hans Ten Berge, referring to German schemes for coal-fired generation.

As far as I know, there are more than 28 capacity mechanisms in 11 EU member states at the moment – its time that we harmonise that.

But he doubts member states are willing to do it. As soon as they are short of power, they immediately throw money to build extra capacity, he lamented.

Limited room for improvement

The Commission formerly championed a fully functioning energy only market in which national interventions would be unnecessary.

Now, policy making is no longer about a grand design for a Europe-wide wholesale market. It is more about whether individual problems can be solved with small tweaks, said Georg Zachmann, a senior fellow at the Brussels-based think tank Bruegel.

Rather than risk 28 different national energy policies, the EU executive now appears to view transparent, well regulated capacity mechanisms as a lesser evil, Zachmann said.

However, Zachmann believes the Winter Package has limited room for improvement on capacity markets, saying EU member states will forge ahead with their favoured energy projects irrespective of what Brussels says.

There is a common electricity market but member states – almost all of them – do what they want, unfortunately, Zachmann told EurActiv.com, citing Britains plans for a new nuclear plant at Hinkley Point and German subsidies for coal as examples.

And that is recognition of the fact that member states can strong-arm Brussels on energy policy, he said.

According to Zachmann, the only way out would be to have an agreement between EU member states at the highest level on how they want the Energy Union to move forward.

They need to discuss whether they really want a European coordination of the power plant park, either through a market or through inter-governmental coordination and how this should be institutionalised, Zachmann said.

I think that is the question were facing at the moment. And then playing around with capacity mechanisms or state aid rules is like window-dressing on the fringes of it. Brussels can always come up with new state aid rules or instruments to regulate capacity mechanisms but this is unlikely to make a big difference at this stage.

#### ANALYST: MEMBER STATES CAN STRONG-ARM BRUSSELS ON ENERGY POLICY

From nuclear plants in the UK and Hungary to coal-fired power stations in Germany, member states always manage to forge ahead with their energy projects, according to Georg Zachmann, who calls on EU leaders to sit down and seriously discuss the Energy Unions governance.

EurActiv.com

---

Kaynak/Source: