



Friends of the Supergrid response to the EC consultation on the interim report of the sector inquiry into electricity capacity mechanisms in the EU.

4 July 2016

About Friends of the Supergrid

Friends of the Supergrid (Supergrid), founded in 2008, is a European industrial alliance that advocates for the creation of a pan-European, integrated high-voltage direct current electricity network. The organisation represents a group of companies from across the electricity generation and transmission value chain. We combine companies in sectors that will deliver the High Voltage Direct Current (HVDC) infrastructure and related technology, together with others that will develop, install, own and operate that infrastructure.

Friends of the Supergrid response to the European Commission (EC) consultation on the interim report of the sector inquiry into electricity capacity mechanisms in the EU.

Supergrid is encouraging the EC to promote a competitive internal energy market as a basis for a European power system that is cost-efficient, sustainable and secure in line with the Energy Union Strategy to create a connected, integrated and secure energy market in Europe. Market-based capacity mechanisms could, under certain circumstances and if justified, complement the internal energy market. However, Supergrid does not consider that capacity mechanisms should be systematically introduced in national markets unless it is proven that there is a serious risk for the national system to ensure security of supply in the long term.

Supergrid welcomes the possibility to comment on the Interim Report of the Sector Inquiry on Capacity Mechanisms. Our response focuses on:

1. Need for a more harmonised approach to generation adequacy and reliability standards
2. Regional system adequacy assessments as a basis for capacity mechanisms
3. Allowing capacities of neighbouring countries to participate in capacity mechanisms; and
4. Role of cross-border transmission grids in design of capacity mechanisms.

1. Need for a more harmonised approach to generation adequacy and reliability standards

Supergrid shares the EC's view that a more harmonised approach to generation adequacy and reliability standards is necessary to enable more coordination and cooperation across borders in the EU. Considering the growing share of renewable energy, it is important that a harmonised approach to system adequacy shall be developed in the wider pan-



European market context. Supergrid considers that the mismatch between location of RES and consumption centres requires adequate interconnections to balance the changing supply and demand.

At present, measures taken to ensure the system's security of supply are mainly based on a national perspective. System adequacy analyses performed at national level do not always take into account the benefits of building additional interconnectors. There is also a lack of common standards to assess security of supply. Supergrid believes that the development of an optimised electricity system across Europe will require a shift from this national focus towards a more consistent regional methodology that will ultimately lead to a more coherent and efficient European system adequacy approach.

Member States should therefore be encouraged to develop standards and a common methodology to assess, at regional level, and ultimately at European level, the levels of security of supply.

Such an approach will also facilitate the development of new infrastructure which responds to the real European security of supply needs and will allow to efficiently reach the agreed European targets for energy and climate change.

2. Regional system adequacy assessments as a basis for capacity mechanisms

Supergrid recognises that under exceptional circumstances, capacity mechanisms could contribute to solve a national energy security issue.

The reform of the existing and new market-based mechanisms shall be based on cost efficiency. This implies a principle of collective energy security through expanded grid interconnections which allows Member States to rely on electricity supply from other states whenever it is possible and makes economic sense.

Supergrid highlights the preliminary conclusions of the EC that the possibilities of supplies from neighbouring Member States are currently not sufficiently taken into account in national assessments, nor are regionally aligned assessments taken as a basis for capacity mechanisms.

Without a harmonised approach to capacity mechanisms, these have the potential to distort cross-border electricity trade and competition and to encourage investments only within national borders when it would be more efficient to reinforce interconnections and import electricity when needed.

3. Allowing capacities of neighbouring countries to participate in capacity mechanisms

We share the view that allowing foreign capacity providers to participate directly in a national mechanism avoids discrimination, ensures that Member States procure capacity at a lower cost, and helps building a more integrated EU energy market. As long as



interconnection capacity exists (or will exist by the time the power provision is needed), Member States should allow resources in neighbouring countries to participate in capacity mechanisms.

Supergrid welcomes that some Member States are developing plans to allow cross-border participation in their capacity mechanisms. We note that allowing foreign capacity to take part in a capacity mechanism improves security of supply, increases competition and has the potential to lower retail prices for final consumers.

4. Role of cross-border transmission grids in design of capacity mechanisms

Improving cross-border grid interconnections allows buying electricity from wherever it is cheapest. It also increases the potential for low-carbon electricity to be traded across borders more easily.

Supergrid recalls relevant provisions of the Guidelines on State aid for environmental protection and energy (EEAG) related to the participation of interconnectors in the design of capacity mechanisms requiring states to (i) take the contribution of interconnections into account; (ii) be open to interconnectors if they offer equivalent technical performance to other capacity providers; (iii) not reduce incentives to invest in interconnection and; (iv) not undermine market coupling¹.

We support the conclusion of the EC that *“The inclusion of cross-border participation is also in line with the Energy Union objective to ensure a fully-functioning and interconnected energy market”*².

If cross-border participation in capacity mechanisms is not enabled, there will be greater distortion of the signals for where new capacity should be built, and an increase in overall system costs. There is also the possibility that capacity mechanisms could fail to adequately reward investments in the interconnections that allow access to capacity located in neighbouring markets.

It is our view that cross-border grids can play a central role in providing the incremental flexible power capacity across the EU. Inclusion of interconnectors in capacity market would allow access to an additional and already existing capacity in neighbouring states.

The key regulatory issue to be addressed is how interconnector capacity will be de-rated for availability. Supergrid invites the EC to task ENTSO-E to further analyse³ (i) the need to establish common principles and rules for de-rating of foreign capacity resources for

¹ EEAG 226, 232, 233

² Page 14, EC Interim Report of the Sector Inquiry on Capacity Mechanisms

³ Further analyse recommendations given by the June 2015 working group of Member States that convened to examine the issue of cross-border participation in capacity mechanisms (Annex 2, Commission Staff Working Document)



the purpose of participation in capacity remuneration mechanisms; (ii) the appropriate methodology for calculating suitable capacity figures for each border and; (iii) to define common rules to be applied in scarcity and emergency situations.

Should you require further clarification on any of our comments, please do not hesitate to contact us.