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Corporate Affairs

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Concerns: Consultation 'A bridge to 2025'

Dear Madam/Sir,

Eneco very much appreciates ACER's initiative to consult on the direction of the energy market in the period 2014-2025 and the policy and regulatory options. Eneco is of the opinion that one topic is both crucial and urgent given the various national policy debates: electricity adequacy. Therefore adequacy is the sole topic of this letter.

How (in)adequate is the European market the coming decade?

Before analysing solutions, one should estimate the size and urgency of the problem. ENTSO's Scenario Outlook & Adequacy Forecast (SO&AF) 2013-2020 concludes that on ENTSO-E level the remaining capacity (net generating capacity minus unavailable capacity minus load) is higher than the Adequacy Reference Margin (ARM) during the entire period until 2020 at both reference points (January and July).

Thus, on European (note: ENTSO comprises TSO's from 34 countries) level there is adequacy according to the SO&AF report. This includes international dependency: some countries need import to cover electricity demand. ENTSO-E specifically mentions Belgium, Germany, Czech Republic and Poland as countries that may simultaneously require import in the winter period.

Perceived urgency

Besides the analytical approach, of which the ENTSO-E report is an example, there is the political dimension. In some countries, the political dimension could mean that a certain call for swift regulatory action cannot be avoided. Also, the theoretical correct analysis that in a world with 80-95% marginally cheap electricity (nuclear, wind, solar) one cannot invest on MWh-income alone is in some debates 'transported' to the reality of 2014.



Both the political dimension as the ‘time transport’ of a high renewable-percentage can be labeled as perceived urgency.

First things first: ‘no regret’ options

Using the above mentioned perceived urgency, some companies and policy makers advocate a complete restructuring of the market, in some form that fits the broad label of capacity remuneration mechanisms (CRM). However, since this medicine is quite extreme and the ailment of inadequacy might not (yet) be there, it is wise to look at other measures first. There are several:

Optimise subsidy systems

Common denominator in describing adequacy problems is that the MWh-price is too low for investors. One (of the many) factors with a bearish influence on the price is the fact that in some electricity subsidy schemes, it is still profitable to generate when the wholesale MWh-price is negative. DG Competition has already started to tackle this problem, by means of new [state aid guidelines](#), obliging a.o. measures per 1-1-2016 to ensure that generators have no incentive to generate electricity under negative prices.

Optimise residual balancing markets

Any electricity inadequacy will appear at the moment of delivery, i.o.w. on the residual balancing market coordinated by the TSO. The balancing markets in Europe have been designed with thermal generation in mind, including rare but sudden outages and analogue solutions. And the balancing markets have been mostly designed from national blueprints.

It would be wise to update a.o. the ENTSO-E load frequency control handbook: are the characteristics of primary/secondary/tertiary controls still fit for purpose? In a mix with more solar and wind, ‘outages’ become both less rare and less sudden. The measures to control load frequency thus can be of another nature (e.g. non-spinning reserve could be exploited more, and demand side management can play a larger role).

Furthermore it is useful to join complementary balancing price zones (one with a high, and one with a low reserve margin) such as the Netherlands and Belgium into one. This further reduces risks in zones perceived as problematic, as it optimizes the use of interconnectors.

Remove administratively set MWh prices, as it comes with a need for a CRM.

As the European commission rightly stated in November 2013 (quote from C2013 7243 final): “regulated retail prices and wholesale price caps mean that new investments are less likely to be profitable”. New investments are necessary to structurally guarantee electricity adequacy. And specifically investments in instruments like demand side management and storage are hampered by regulated price caps. Therefore, the need for a CRM lessens when price caps are removed. In several member states, a.o. France and The Netherlands, there is still a form of retail price regulation.



If remunerating capacity, do it wisely

Finally, when the perceived adequacy problem has been downsized by thorough analysis and implementing all the no regret moves, one could possibly still need a CRM at some point in the future.

If so, it should be non-discriminatory within the EU. This means that cross border capacity (be it generation or demand side management) must be allowed to profit from the CRM as well.

Furthermore, only remunerate capacity that otherwise would not be there. This means only remunerate capacity with expected (very) low running hours that would otherwise never result in a positive business case. In other words: do not promote extra base load to solve a peak problem. As a comparison: the IEA obligation to stock oil is intentionally not extended to normal delivery conditions, but puts an obligation in place that the market would not arrange itself. Another comparison: the 'long tail' of the Dutch gas retail demand distribution curve is obligatory covered by the TSO.

Remunerating all capacity not only is too distorting to the market, it also introduces a vicious circle. A full blown CRM further decreases the MWh-price, a problem it was designed to resolve because of the MWh not being enough solid for investment business cases.

Conclusion

Eneco is convinced that there are a lot of dimensions to electricity adequacy, of which a large number can be arranged in the current market structure. Thoroughly analyzing possible shortcomings of the current market, optimizing the current market structure, and only then changing it should be the preferred steps on the bridge to 2025.

[sent by e-mail]

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Corporate regulatory affairs



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