

Agency for the Cooperation of Energy Regulators
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Slovenia

07 August 2020

Energy UK response to public consultation on cross-border participation in capacity mechanisms

Sent by email to: ACER-ELE-2020-014@acer.europa.eu

Dear sir/madam,

I am writing in response to ACER's (the "Agency") public consultation on cross-border participation in capacity mechanisms.

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership. We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses.

In general, we support the move to the direct participation of capacity in foreign capacity mechanisms. This will reward the provider directly for the capacity that it can provide to interconnected systems. This will likely have a positive impact on capacity mechanism auctions, providing an opportunity for generation or Demand Side Response (DSR) capacity to come to market. This being said, we recognise the crucial capacity that interconnectors facilitate, and the ability to use excess energy across markets, and we believe that they should continue to be appropriately rewarded for this.

Brexit and future arrangements

We note that the consultation refers to cross-border capacity between 'Member States'. We expect that the UK Government will look to apply these methodologies and rules to enable cross-border participation in the GB Capacity Market (CM) on a reciprocal basis after the Brexit transition period, when it no longer has 'Member State' designation. Energy UK would appreciate clarification over future arrangements of this policy and methodology to ensure that this solution is appropriate and enduring, ensuring that this does not become a barrier to cross-border participation. We encourage the Agency to include a section explaining that these proposals are not necessarily limited to Member States.

Identifying eligible capacity

Energy UK would like to stress that any foreign capacity provider must have eligibility criteria applied to them which are identical (or as close to as possible) to that criteria applied to domestic capacity in the capacity mechanism. This should include de-rating methodologies for the different technologies and must focus on a level playing field, to ensure that there is not a competitive advantage to being a foreign capacity provider. This would further act to ensure that the regulatory authority for the capacity mechanism remains in control of the criteria that a capacity provider must meet to provide capacity to its system. It therefore is in charge of its security standard and reliability of its capacity mechanism.

In regards to proposals to not allow indirectly connected foreign capacity to participate within a capacity mechanism, we believe that it should be the responsibility of domestic policy makers owning the capacity mechanism to assess the value a capacity provider could supply to its system during a stress event. However, we recognise that it may be better to restrict access to directly connected foreign capacity initially and then consider the extension to indirectly connected foreign capacity once the basic methodology for cross-border participation has been implemented and any feedback on this methodology has been applied to ensure that there is a robust working model.

Potential variable costs disparity

We understand that many of the questions that we will seek answers to will be relevant to the UK Government and not within scope of this consultation. However, there are various domestic overheads and variable costs that need to be considered in a units short-run marginal cost. There should be equivalency between foreign capacity and domestic capacity. There should be considerations made to this, and any unintended distortions made to a capacity mechanism in the absence of proportional variable costs between domestic and foreign capacity.

We are aware that under Regulation 2019/943¹ and ENTSO-E's explanatory document² that these proposals would come into first either on 4 July 2023, or two years after the date of ACER's approval, whichever is the earlier. This currently leave domestic policy makers with some ambiguity of when it would need to prepare to implement these proposals and potential difficulties in resourcing preparations. As the Agency is aware, enabling direct foreign participation in the GB CM was a consideration of its State aid approval in October 2019³. We urge the Agency to provide clarity of timeframes for approval as soon as possible to send the appropriate market signals, and enable domestic policy makers to prepare for this and ensure that it is prepared for the implementation.

If you would like to discuss this letter in more detail, please feel free to contact me.

Kind regards

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¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0943&from=EN>

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https://www.acer.europa.eu/Official_documents/Public_consultations/PC_2020_E_12/200703%20Explanatory%20document%20for%20XB%20CM%20methodologies.pdf

³ https://ec.europa.eu/commission/presscorner/detail/en/ip_19_6152