

Response to CEER Public consultation on Generation Adequacy Treatment in Electricity

27th April 2010

EDF welcomes this opportunity to debate on CEER's views on how generation adequacy needs to be addressed in the European Internal Electricity Market. Security of supply in Europe is indeed an important issue that, from EDF's point of view, requires a global view of the electrical system, i.e. dealing with both generation facilities and network infrastructure - which are two essential elements for the development of competition and for market integration.

In the first place, EDF wishes to underline - and thereby share CEER's view - that a stable regulatory framework is essential to provide industrial players with sufficient visibility for investment. It is indeed important that industrial players have confidence in the ability of the market design to provide them with relevant signals and then to encourage them to build the capacity the system needs. It is also important that all the investments they have committed into to ensure security of supply will be fairly remunerated, for both load and peak capacities. In addition, given the fact that security of supply issues of interconnected systems are based on interdependency, it is necessary to ensure that the rules adopted in each Member State, particularly with regard to additional market mechanisms or the level of security of supply desired, are compatible with each other and that they do not distort the functioning of the internal market.

This necessary stability and balance in rules and regulation also requires a coherence between the various policies pursued at EU-level (environment, energy, internal market, competition policies) while avoiding any distortion of competition through the implementation of supportive measures.

EDF also believes that all stakeholders (consumers, suppliers, producers) must be involved in security of supply management issues and be consequently empowered. The functioning of competitive markets aims at minimizing the cost of security of supply and should ensure that all the necessary and appropriate means used, including peak demand management, are implemented in equivalent economical conditions so as not to distort price signals and maximize their overall benefit. In addition, EDF recalls that long-term contracts, which allow industrial risks sharing, may also contribute to security of supply, alongside other instruments such as multi-year contracts for energy or allowances of interconnection capacity through which operators can compete at European level.

Finally, EDF believes that diversification of the energy mix is a key component of security of supply. Natural gas has advantages over other fossil fuels in terms of emissions, but Europe will increasingly be relying on imports. It is therefore necessary to ensure that besides natural gas, clean coal and nuclear, as well as renewable energy sources, can participate in ensuring the security of supply at a fair cost for the consumer.

1. What are the key elements for ensuring generation adequacy in the competitive electricity market in EU MS and the EU as a whole?

In competitive markets, price signals provide the best information for investment decisions and ensure that the cost of security of supply will be minimized. But for plants dedicated to peak demand only, which are run a few hours a year, prices of wholesale markets should then reach levels that even though economically justified may not be easily accepted among public opinion. Therefore, there is a growing reluctance of Member States to rely solely on the market to ensure security of supply. Many of them are exploring the possibility to implement complementary mechanisms in order to give an additional revenue to the available capacity during those peak periods while seeking to smoothen the volatility and the level of price spikes on wholesale markets.

On the issue of price volatility, addressed throughout the consultation document, EDF would like to recall that :

- price volatility is not specific to electricity markets. In other markets however, players have tools to manage risk in the long term : for example, natural gas prices are volatile but contractually indexed on oil products prices. The time lag between changes in oil prices and changes in gas prices helps smoothing and therefore dampens the effects of those changes on consumers.
 - Voluntary initiatives have been launched, for example in France, to improve transparency and therefore confidence in the market functioning. The information on power plants made available to stakeholders can objectify the levels of prices on wholesale markets and then ensure that prices and price volatility reflect economic fundamentals and not, as too often brought up, an unfair behaviour from industrial players. The proposal of the draft consultation document to publish information on power plants with time horizons exceeding three years must be viewed with great caution. Indeed, beyond three years, regulatory and political uncertainties exist and could impact the quality of the information delivered. Therefore in order to avoid this difficulty, EDF is in favour of sticking to the three year time horizons.
2. **Do you observe any barriers for investing in new generation capacity? If yes, please list and explain them.**
 3. **In case of additional measures for ensuring generation adequacy, what would be the key issues to take into account?**

EDF shares CEER's view on non-economic barriers to security of supply. To mention just two of them: uncertain or non uniform regulatory framework, and local acceptance of new interconnection lines or power plants project... Besides, administrative procedures across Europe should be shortened and simplified when necessary to avoid excessive lead times and costs.

Regarding economic barriers, there are no barriers other than the distortion of price signals that may deter industrial players to invest, as they do expect a reasonable return on their investments and base their anticipation on price levels predictability.

On this specific point, the CEER document mentions the possibility to strengthen the signals guiding the location of power plants. EDF does not support this proposal since, considering existing situations, such mechanisms have not shown their efficiency in terms of maximisation of the collective benefit. Indeed, power plant localisation choices integrate additional or superior constraints (acceptability, administrative procedures, technical, social matters...). If EDF does not support the idea that the signals could be a driver, EDF nevertheless considers that transmission system operators should have at their disposal legal means (such as calls for tenders) when an issue related to localisation of power plants arises.

Finally, particular attention should be given to measures that can create such economic barriers. Therefore, if Member States wish, beside the energy markets, to establish additional mechanisms to compensate capacities involved in the security of supply, it would be useful to ensure that these mechanisms adopted at national level do not distort the functioning of an integrated European market and support its achievement. EDF draws attention on the fact that since this issue falls under the principle of subsidiarity, it is desirable to seek greater harmonization of rules for further market integration, with initiatives such as those developed by the "target model" of the "Project Coordination Group" in the frame of the regional Initiatives launched by ERGEG.

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