2010-04-21

Council of European Energy Regulators
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CEER call for evidence on Generation Adequacy Treatment in Electricity

Vattenfall welcomes the opportunity to respond to the CEER call for evidence on Generation Adequacy treatment in electricity. The issue is a key issue for society's confidence in the liberalized electricity market, and has now become even more topical, due to the large scale introduction of wind power, which changes the investment considerations also for other types of generation plants.

General comments

We agree with most of the reasoning and conclusions in the paper about ensuring investments in new plants, but Vattenfall believe that apart from that, there has also to be ample consideration on how to avoid too early closing down of older plants at times of tight power balance.

In the current public debate the requirement on the electricity market is that interruptions due to lack of generation capacity should not occur under any circumstances. On the other hand, realistically, a one hundred per cent adequacy of supply would be prohibitively expensive. Instead the Regulators should decide the desired level of adequacy and if deemed needed take measures to ensure this level, e.g. requiring the TSOs to tender for generation capacity and demand flexibility.

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

The CEER paper makes a good survey of these elements, and Vattenfall just want to emphasize the importance of the investment climate in common, and not only for specific generation types. Environmental goals should be translated into incentives for environmental performance and not into choice of certain techniques. All types of generation should bear their own costs, and subsidy schemes should be designed such that they disturb the market functions as little as possible. In this way the environmental goals are reached in the least costly way.

The most important long term solution to generation adequacy is to utilize the price sensitivity also on the demand side. The market has to be developed to become more flexible and it is not feasible to do that on the supply side only. To include the customers in creating flexibility means among other things that the price signals are allowed to work. No price caps or floors or ways to use emergency reserves to artificially smooth out the price variations should be used. The efforts should be put at developing metering and settlement infrastructure and automation systems to allow the customers to take responsibility for their own consumption hour by hour.

In medium term, security of supply could be increased by continuing to create regional and intra-regional markets, i.e. by enlarging shared the markets reserves. This leads to that market stability is automatically increased and investment risks are decreased.

In an increasingly highly meshed system like we have in Europe, it is important that transfer capacity is not blocked by reservations for non economic determined reservations for reserves. Also huge contributions to generation adequacy will be secured by generation capacity abroad. This has to be considered in order to avoid installed overcapacity in Europe but at the same time closely monitored in order to avoid that generation capacity is considered twice nationally and abroad. We therefore see a strong need for a European generation balance perspective instead of a pure national one.

Transmission has to be planned ahead of generation investment as is pointed out in the CEER paper. This means that regulators have to allow TSOs to take the risk that the expected generation investments sometimes are not realized, and that the costs resulting from transmission investments which thereby appear to be stranded, are allowed to be covered by the transmission tariffs. The risk for over-investments in transmission is however small, because first it is difficult to get licensees, second transmission capacity will soon or later be needed, third transmission investments are small compared to generation investments. A closer cooperation on long term planning between licensing authorities and TSOs could reduce the risk of stranded investments.

Question 2: Do you observe any barriers for investing in new generation capacity? If yes, please list and explain them.

The barriers for investments in new generation capacity comes mainly from the additional risks due to political and regulatory uncertainty compared to other kinds of capital intensive industry. E.g. the very distinct national scope of the renewables targets (and consequently the incentives to reach them) and the EU scope of the electricity market create uncertainty on how the rules will be, when the new plant comes into operation. Compared to that uncertainty it is not a major issue how to hedge the prices more than five years ahead. Even if generation investments are very long term, a main decision factor for profitability is how fast the new plant can come into operation and the income during the first years of operation. If the market design is credible and stable the risks could be handled.

Question 3: In case of additional measures for ensuring generation adequacy, what would be the key issues to take into account?

Before any additional measures are discussed the market must be allowed to work, and to that end all measures should in first hand strive at facilitate the markets ability to perform its functions. Other measures should not be taken until it is clear that this is not enough. Also it is important not to create new problems while trying to solve others. If, however, new and additional measures should be taken, international harmonization is very important.

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With kind regards

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