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Generation Adequacy Treatment in Electricity A CEER Call for Evidence

Generation adequacy:

When sufficient generation capacity is available to meet demand, taking into account network constraints. Within that scope, all timeframes must be considered from several years ahead (investments in new generation capacity) to close to real-time (e.g. sufficient margin over peak load).

This is IFIEC's response to the three questions on which CEER consulted. :

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

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

- Stable long term (30 years) political policy framework allowing generators (and users and distributors) to invest with confidence.
- Key is to prevent and/or reduce any generation dominant position by enlarging zones, to improve market competition:
 - Interconnections must be sized to accommodate large balancing flows caused by future wind and tidal renewal generation;
 - National zones should be merged to create regional zones without internal borders. This should avoid both back-up and balancing capacity being in the hands of one or a few dominant players;
 - interconnections should be able to assure security under reasonable economical conditions (end users should obtain both security and a competitive supply)
- The contribution of large industrial power consumers to generation adequacy considering that:
 - Modulation capacity should be encouraged when technically feasible
 - Large industry should not be obliged but incentivised to modulate.
 - Industrial modulation cannot be considered a main source of contribution to generation adequacy in either the short or medium term (will depend on modulation valorisation, market recovery, specific product demand, technical feasibility, etc)
 - It's vital to properly valorise this modulation **as from today** allowing gains both for the environment, the utilities, the TSO's and the industrial customer.

The reasons for being cautious regarding the contribution of large industrial to generation adequacy are the following:

- During actual market slowdown, modulation should be higher compared to a period where economy is running at a high pace and book orders are full. Past industrial plans were dimensioned to work at full capacity with no or little “spared” capacity to allow modulation (high apparent but low real modulation) and, if no further spare capacity is available due to market improvements, industry would not be in a position to maintain the initial level of modulation (this modulation level will be strongly linked to the economical rewards and the indirect risks the industry is taking by reducing their production...loss of market share, tensions in the market for their product, etc)
- Where the economical reward is sufficient, the industry will be able to adapt future investments, creating the needed industrial flexibility to help generation adequacy in the long term on a regular basis. This will be an extra cost for the industry as over-sized plants will be needed to respect the scheduled production capacity, so will need a long term clear policy;
- TSOs and DNOs must operate even-handedly and rapidly to minimise entry costs for new Generators;
- Predictable and short permitting procedures.

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

- There is no clear, long term (30 years), policy.
- Existence of dominant market players in several markets. An investor of generation capacity in a market dominated by a single generator is at the will of this producer. The investment risk is too high and thus the dominant position remains.
- Uncertain and lengthy permitting procedures. Some permitting procedures can take up to 8 years with an uncertain outcome. This lengthy procedure can be for both generation capacity itself (e.g. nuclear plants) and for transport infrastructure that is key for new generation capacity.
- Need to have progress with unbundling, so that new entrants can easily access the market while dominant market players reduce their market share.

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

- Increase competition by giving equal opportunities for new entrants.
- Increase interconnection capacity where needed and create short term / balancing markets to allow them to operate freely.
- Harmonizing/simplifying and accelerating permitting procedures in a stable and long term regulatory environment.
- A bi- annual study for future load/demand curve and gap with future generation capacity, grid evolution and planned power plants buildings should be published at European scale to allow visibility for base load, semi-base and peak generation investments. Visibility should also be granted on closing and replacement plans for existing power plants.
- Each Member State must monitor generation capacity to prevent structural deficits between offer and demand.
- Before Europe decides to use a last resort mechanism foreseen to palliate the lack of generation capacity, IFIEC would like to be consulted about the nature of the mechanism.