

BDEW Position Paper

on CEER's Call for Evidence on Generation Adequacy Treatment in Electricity

April 26th, 2010

The German Association of Energy and Water Industries (BDEW) represents 1,800 members of the electricity, gas and water industry. In the energy sector, we represent companies active in generation, trading, transmission, distribution and retail.

1 General Remarks

BDEW welcomes the opportunity to comment on CEER's call for evidence on Generation Adequacy Treatment in Electricity.

Generation adequacy and the needed investments are driven by market powers and political decisions. Today some 70 GW of wind power generation capacities are already installed across Europe. The amount has to be further increased to achieve or extend the European 20-20-20 targets. In Germany, the target is even more ambitious, as RES should achieve at least 30% of the total electricity demand in 2020. Hence, new and additional generation should be compatible to the stochastic nature of RES. Investment decisions concerning power plants constitute a core element of market liberalisation. As such they have to be clearly distinguished from grid investments which form a part of monopoly regulation.

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

General Observations

BDEW believes that a free electricity market without artificial market barriers will deliver the correct price signals to promote a sufficient generation adequacy by a market efficient generation mix. Hence, regulated energy prices make investments more uncertain and can drive potential investors away. Therefore, price regulation on the demand side should be removed in all Member States immediately.

Price fluctuations and temporary price peaks are indicative of well-functioning markets. If they were suppressed, the investment signals would be distorted, and the market would be deprived of its fundamental operability.

Especially, for the German market with its connections to many other markets and a most liquid price zone, it is well suited to absorb the future RES from offshore wind parks in the North and Baltic Sea and can give incentives to provide generation adequacy and storage facilities (e.g. in the alpine regions). The existing congestions between Member States can be an obstacle for generation adequacy. This lack of integration influences the price formation on wholesale markets and can decelerate investment decisions. Hence, BDEW believes that the implementation of efficient and harmonised congestion management methods on an EU wide level is an important condition to achieve further market integration.

Today, we can observe various support schemes for (especially RES) generation in the European Union. To minimise the political effects on the market prices, the promotion of liquid

markets is a vital pre-condition. Hence, market rules (e.g. balancing responsibility) and support schemes should be harmonised among the different Member States and technologies.

Furthermore, the future price developments of primary energy like coal, lignite gas and the complement emission rights influence the investment decisions.

Consumers can also benefit from these price fluctuations. However, it should be clear that price spikes are reduced by the active trading of energy companies and therefore lowers risks for households.

Observations on the composition of the energy mix:

Generation adequacy is not about attaining a specific mix of generation. An appropriate generation mix will emerge from market signals. The market rewards the construction of peak capacity and new base-load capacity as needed. The same is true for decommissioning.

There is no need of prescribing a certain generation mix – be it EU-wide, regional or national. On the contrary, quota for certain types of generation will be detrimental for achieving a welfare optimum.

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

We consider the risk of regulatory interventions into electricity markets one of the main obstacles to new investments. The increasing share of RES generation combined with feed-in tariffs will lead to a higher volatility of energy prices with price spikes. These price signals give the right incentives to invest in peak load plants or storage facilities. However, it is unsure whether regulators will accept these inevitable price spikes in the future.

Investors need certainty that there will be a free formation of prices during the asset's period of amortisation. Legislators and regulators should commit themselves to unrestricted free markets which are controlled by supply and demand. Price spikes in cases of scarcity must be accepted.

As CEER rightly states, new power plants need adequate grid infrastructure (gas and electricity). We observe that many generation investments face public resistance – not only power plant projects itself, also for grid investment and CCS-projects.

Need for further harmonisation

Differences in environmental regulation requirements in Member States, as well as power plants and grid authorisation procedures, create distortions and barriers to investments. Therefore, we are of the opinion that with an increasingly converging internal market these regulatory aspects should also be harmonised.

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

As stated above we see the need to quickly remove still existing market barriers to let the markets work and evolve freely. In competitive markets, the future demand is satisfied through price mechanisms in a cost-optimum manner. Under normal conditions market participants rely upon this principle and accept phases of temporary price peaks or cover themselves against these peaks by means of marketable products. Before considering implementing any “additional measures” a thorough analysis is necessary.

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