

## ***System adequacy & capacity remuneration mechanisms***

CEER White Paper series (paper # VII) on the  
European Commission's Clean Energy Proposals

20 July 2017

### **1. Introduction**

This Regulatory White Paper provides the views of National Regulatory Authorities in the Council of European Energy Regulators (CEER) on system adequacy and capacity remuneration mechanisms (CRMs). The aim of this White Paper is to deepen understanding and to assist the EU Institutions in assessing the proposals contained in the “Clean Energy for All Europeans” legislative package<sup>1</sup>.

CEER welcomes the fact that the European Commission acknowledges the option of CRMs to address residual resource adequacy concerns in Member States that cannot be addressed by other measures, such as additional interconnection investments or removing regulatory distortions. The proposed strengthening of the existing legislative framework for CRMs is a step in the right direction to ensure their compatibility with the internal market.

### **2. Regulators' Key Recommendations**

CEER broadly welcomes the system adequacy and CRM-related proposals in the Clean Energy package, with the following key recommendations (see also next sections):

- **A coordinated adequacy assessment is a key element for ensuring security of supply in the context of a well-functioning internal energy market. CEER stresses the benefits of an EU-wide methodology, implemented at regional level, with a strong coordinating role for ENTSO-E in order to ensure consistency. We also believe that, at least in the short term, this assessment may be complemented by national adequacy studies.**
  1. CEER welcome the introduction of a harmonised framework for adequacy assessment at European level. This assessment should be a central element of the Internal Energy Market. It should be implemented at regional level – with consistency across regions ensured by ENTSO-E – and its results shall be taken into account when putting in place a CRM. Member States or Transmission System Operators (TSOs) may contribute by providing national assessment studies, which shall feed into the regional assessment.
- **If a CRM is introduced, it should provide a clear, transparent and credible framework to the market and for investors and should allow cross-border participation so as not to distort investment signals between neighbouring zones.**
  2. Clarity and transparency in the design of any CRM, as well as its credibility, are key to ensure its effectiveness. Therefore, it should be clear that rights acquired under existing CRM

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<sup>1</sup> For ease of reading, reference to the Electricity Regulation refers to the proposed recast Electricity Regulation (EC) COM/2016/0861final/2 - 2016/0379 (COD), and reference to the Electricity Directive refers to the proposed recast Electricity Directive COM/2016/0864 final/2 - 2016/0380 (COD), and reference to Governance of the Energy Union refers to 2016/0375 (COD). References to specific Articles in the proposed recast legislation relate to the revised texts (corrigenda) published by the European Commission on 23/02/2017.

agreements should not be revisited each time the adequacy assessment is reviewed. However, the results of the adequacy assessment shall determine whether a CRM is still needed. For market-based CRMs, a stable framework seems to be sufficient as the capacity price would reflect this need, and decrease to zero if the need disappears.

3. Explicit cross-border participation in capacity mechanisms can be an efficient way to ensure the desired level of security of supply at the minimum cost for consumers. Common rules are necessary in that regard, though they should be able to accommodate different types of CRMs and avoid undue distortions.

- **Future compliance of existing mechanisms**

4. CEER welcomes the purpose of the provision in Article 24 of the proposed recast Electricity Regulation on existing mechanisms but notes that the proposal lacks a clear procedure to ensure compliance. We therefore underline the need for the process to consider the “State Aid inquiry framework” and decisions taken within that.

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### 3. Resource adequacy studies

System adequacy analysis is an important tool to identify system adequacy issues and to evaluate the effect of an intervention to introduce a CRM to safeguard generation adequacy. A harmonised method, including contributions from cross-border trade in scarcity periods, is a necessary step to ensure a coherent analysis of security of supply at the EU level.

Therefore, CEER welcomes the introduction of a European-wide methodology implemented by TSOs at regional level in the framework of ENTSO-E. These regional studies shall also capture the interdependency of national and regional systems and the fact that neighboring countries can – to some extent – contribute to the security of supply of a given Member State. Member States or TSOs may contribute by providing national assessment studies, which shall feed into the regional assessment.

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## 4. Design of CRMs

### 4.1 Long-term visibility

As for any regulatory framework in the energy sector, stability and transparency is key for the market in order to keep the uncertainty of the actors to the minimum, hence lowering the overall costs for consumers. While a periodic review of CRMs is necessary in order to check whether the need for a mechanism still exists, such a review should not affect the acquired rights under existing CRM agreements. For market-based CRMs, a stable framework seems to be sufficient as the capacity price would reflect this need, and decrease to zero if the need disappears.

### 4.2 Rules for cross-border participation

CEER concurs with the idea that security of supply cannot be regarded as a purely national consideration in an integrated European energy market, and should therefore also be addressed on a regional and pan-European level. Explicit participation of cross-border capacities can be an efficient way to ensure the desired level of security of supply at the minimum cost for consumers.

In that regard, defining harmonised rules makes sense to ensure the correct articulation of different CRMs. These rules should be able to accommodate different types of CRMs, e.g. rules for availability checks and conditions for non-availability payments. Further, it may be beneficial to

keep the possibility for interconnector owners to participate directly in the CRM by acting as intermediaries for foreign capacity, if this can provide for efficient and practical solutions.

## 5. Compliance of existing capacity remuneration mechanisms with the new rules

The Commission proposal includes a provision (Article 24 Electricity Regulation) requiring Member States to adapt their capacity mechanisms to comply with Articles 18, 21 and 23 of the same Regulation after its entry into force. While CEER commends the purpose of this provision, more clarity would be helpful on how this will be applied in practice, because the Commission proposal does not provide a clear framework to ensure compliance of existing mechanisms with the future regulatory framework. The process needs to also consider the “State Aid inquiry framework”<sup>2</sup> and decisions taken within that.

### Annex 1: Relevant ACER/CEER Papers

This White Paper builds on the “[European Energy Regulators’ Overview Paper - Initial Reactions to the European Commission’s Proposals on Clean Energy](#)”, published by ACER and CEER on 23 January 2017. It is part of a series of regulatory White Papers covering key topics related to the Clean Energy package. For further background and positions, please see below the list of relevant publications of the European Energy Regulators.

<a href="#">European Energy Regulators’ Overview Paper, “Initial Reactions to the European Commission’s proposals on Clean Energy”</a> , 23 January 2017
European Energy Regulators (ACER-CEER) White Paper #1 <a href="#">Renewables in the Wholesale Market</a> , May 2017
European Energy Regulators (ACER-CEER) White Paper #2 <a href="#">Role of the DSO</a> , May 2017
European Energy Regulators (ACER-CEER) White Paper #3 <a href="#">Facilitating Flexibility</a> , May 2017
European Energy Regulators (ACER-CEER) White Paper #4 <a href="#">Efficient Wholesale Price Formation</a> , May 2017
CEER White Paper (no. I) on <a href="#">Distribution and Transmission Network Tariffs and Incentives</a> , May 2017
CEER White Paper (no. II) on <a href="#">Technology that Benefits Consumers</a> , May 2017
CEER White Paper (no. III) on <a href="#">Consumer Empowerment</a> , May 2017
CEER White Paper (no. IV) on <a href="#">Efficient System Operation</a> , June 2017
CEER White Paper (no. V) on <a href="#">The Independence of National Regulatory Authorities</a> , June 2017
CEER White Paper (no. VI) on <a href="#">Infrastructure</a> , July 2017
CEER, <a href="#">Treatment of Interconnectors and Neighbouring Resources in Capacity Remuneration Mechanisms</a> , 7 June 2016
ACER-CEER, <a href="#">Response from the Agency of the Cooperation and the Council of European Energy Regulators to the European Commission’s Interim Report of the Sector Inquiry on Capacity Mechanisms</a> , July 2016
ACER-CEER, <a href="#">Joint ACER-CEER response to European Commission’s Consultation on a new Energy Market Design</a> , October 2015

<sup>2</sup> State aid sector inquiry into electricity capacity mechanisms in the EU:  
[http://europa.eu/rapid/press-release\\_MEMO-16-4023\\_en.htm](http://europa.eu/rapid/press-release_MEMO-16-4023_en.htm)