The Commission's sector inquiry into capacity mechanisms

Berliner Gesprächskreis zum Europäischen Beihilfenrecht

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* All views expressed are personal and do not commit the European Commission

Competition

Where are we coming from?

10 years ago: launch of the Energy sector inquiry under antitrust rules

- Challenge: open markets and promote competition
- Active enforcement and third energy package

In parallel: decarbonisation agenda

- Renewables
- Energy efficiency and moderation of demand

Current situation in electricity markets

- Increasing generation capacity
- High level of intermittence
- Decreasing demand
- Overcapacity in many Member States
- Decreasing wholesale prices since some years
- Low utilisation of conventional plants

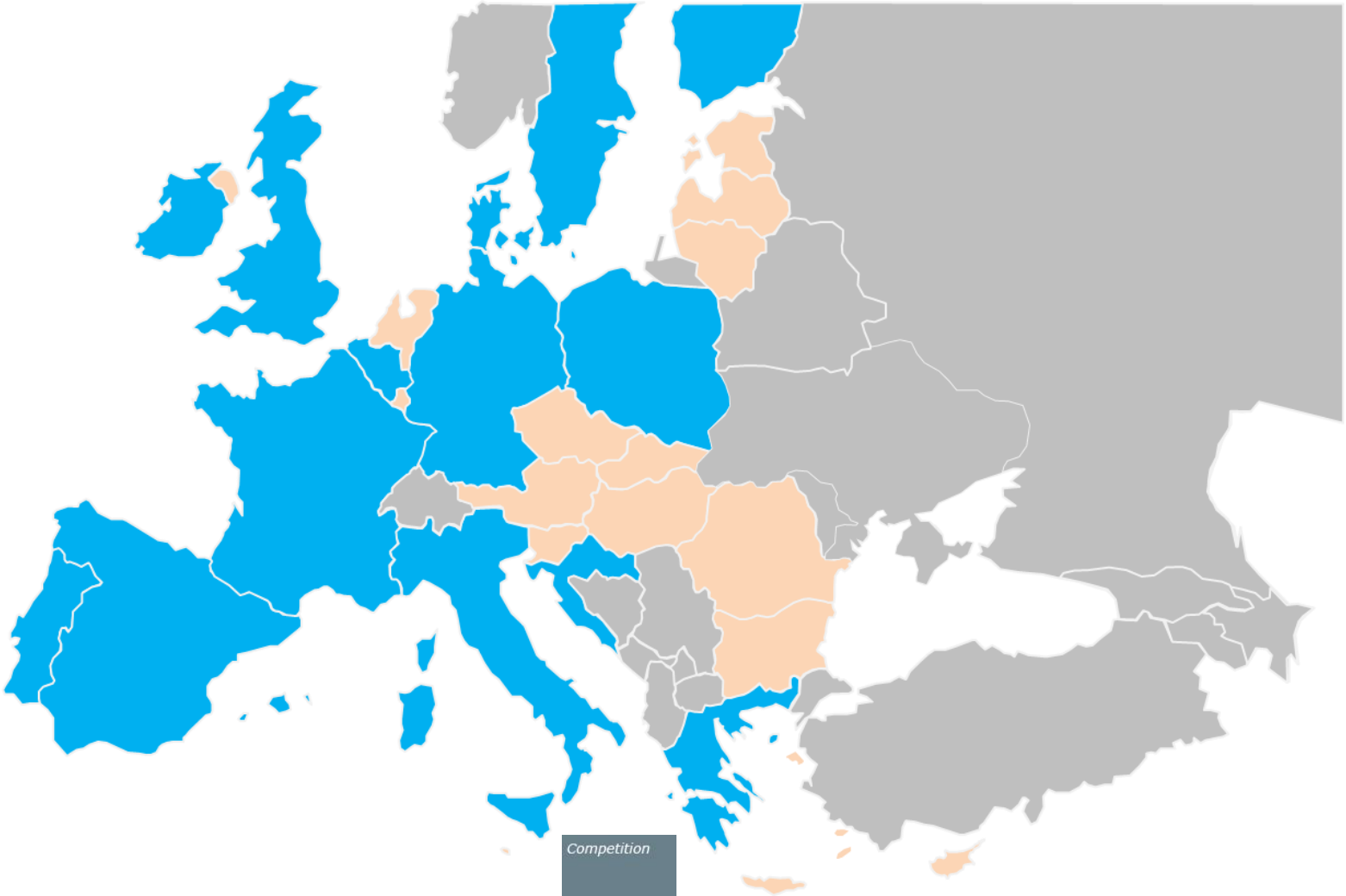
Outlook for electricity markets

- Mothballing and closure of conventional plants
  - In particular gas-fired plants
  - Aging generation park
- Concerns about future security of supply
  - Conventional plants needed as back-up for Renewables
  - Mismatch of location of new renewables and demand
    - Insufficient networks
  - New investment needed in medium term
    - Long lead time for investment

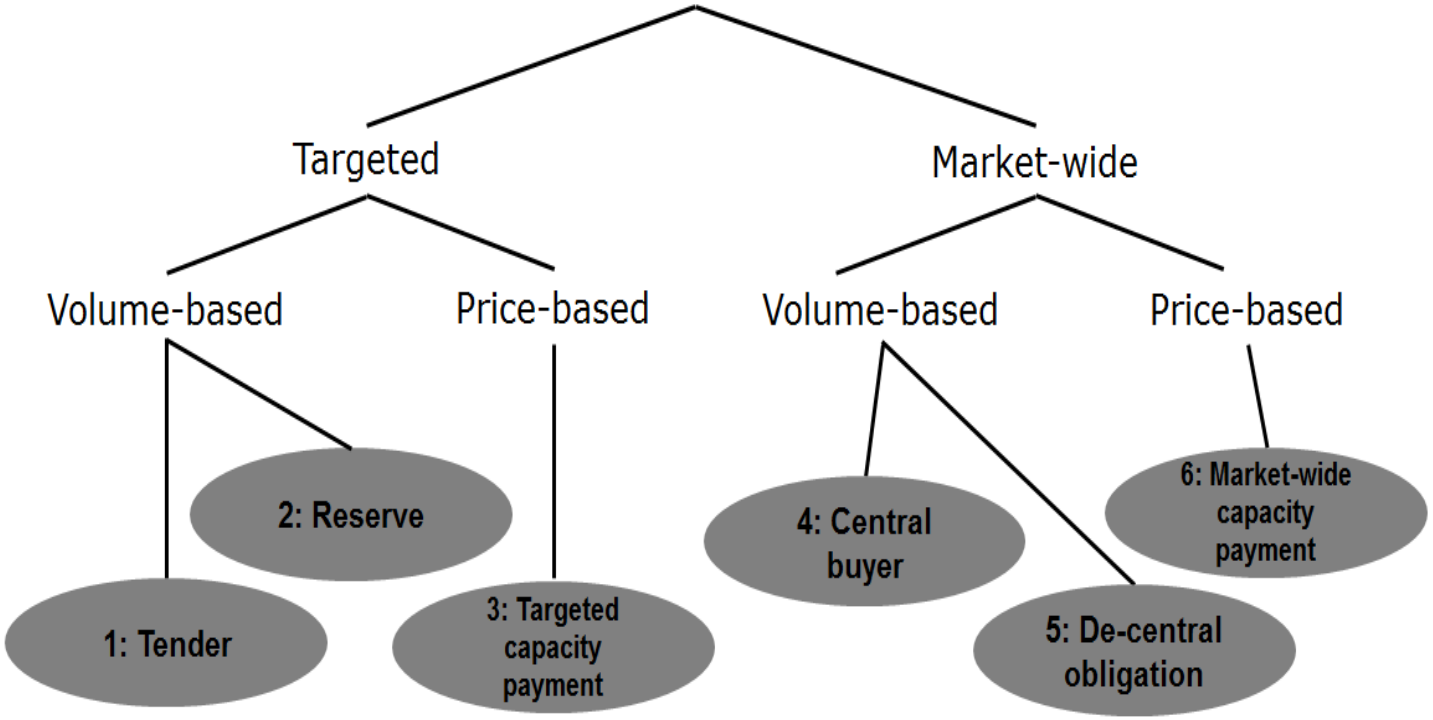
➔ Member States introduce capacity mechanisms to ensure future security of supply

European Commission

Member States' interventions



Taxonomy of capacity mechanisms



Why a State Aid Sector Inquiry?

Article 25 of the procedural regulation

- "reasonable suspicion that State aid measures in a particular sector could materially **restrict or distort competition** within the internal market in several Member States"

- **existing aid measures** in a particular sector in several Member States are **not compatible** with the internal market.

Why a Commission sector inquiry?

Most State Interventions involve State Aid

EEAG set out rules for compatibility

Few cases have been notified

- UK (2014): Compatible aid under EEAG
- FR CRM (on-going): proceedings opened
- FR Brittany tender (on-going): proceedings opened

Sector inquiry – scope and purpose

Launched on 29 April 2015

Purpose

- Investigation and fact-gathering going beyond standard State aid procedures
- Help with implementation of EEAG rules
- Support market design initiative under Energy Union Strategy

Scope

- 11 Member States

Competition concerns arising from capacity mechanism

Market distortions

- Patchwork of Capacity mechanisms partitions internal market

- Strengthening market power of incumbents

Overcompensation

- due to unnecessary or badly designed, non-competitive mechanisms

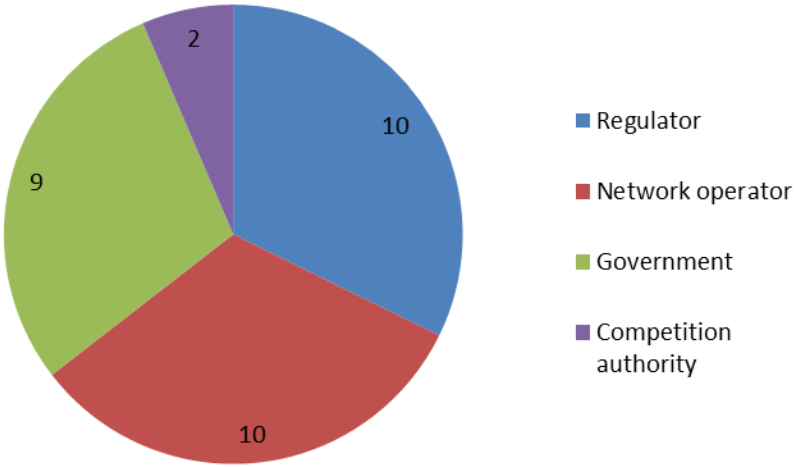
What is a State Aid Sector Inquiry?

Commission may request the **Member States and/or the undertakings or associations of undertakings** concerned to supply the necessary information

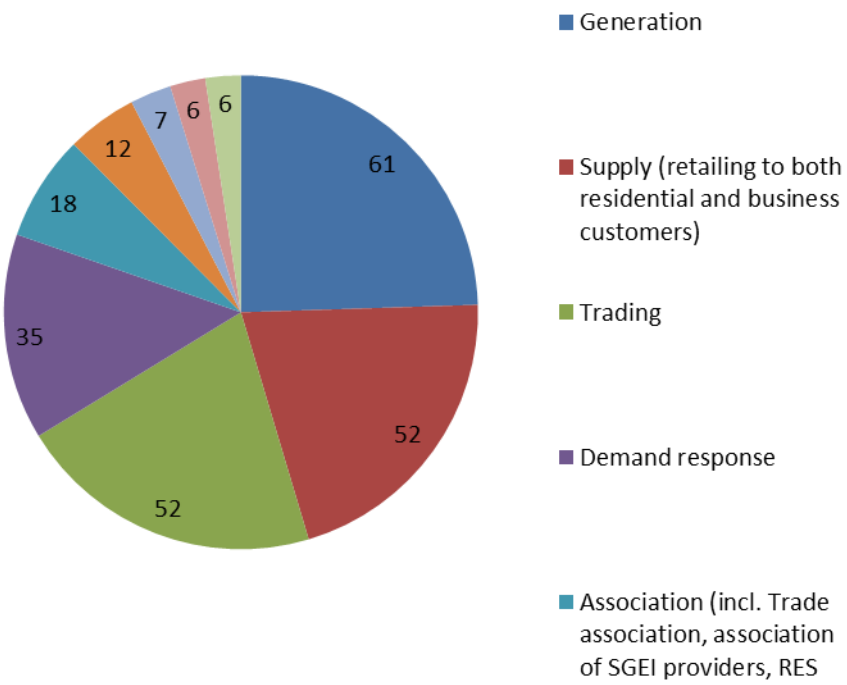
Information obtained from sector inquiries may be used in the **framework of procedures** under this Regulation.

The addressees

31 replies from public bodies



96 replies from market participants



Ascertaining the need for Capacity mechanisms

Generation adequacy

- Concrete adequacy situation
- Adequacy assessments
- Reliability standards

Regulatory and market failures

Design features of Capacity mechanisms

Eligibility

- Existing v. new
- Demand side
- Foreign capacity

Allocation process

- Administrative v. competitive
- Centralised v. decentralised

Capacity product

- Obligations
- Sanctions

Impact on trade and competition

- Foreign capacity
- Market power
- Competition distortions

Sector inquiry - process

29 April 2015
Launch of the Inquiry

Interim report
Early 2016

Consultation

Final report
2016

Preparation of Energy Union legislative proposals

Thank you for your attention!