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The future of capacity remuneration mechanisms in the EU

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Overview

This paper tries to present briefly which role are playing and will pay capacity remuneration mechanisms in the EU. Capacity mechanisms are measures taken by Member States to ensure that electricity supply can match demand in the medium and long term. Capacity mechanisms are designed to support investment to fill the expected capacity gap and ensure security of supply. Typically, capacity mechanisms offer additional rewards to capacity providers, on top of income obtained by selling electricity on the market, in return for maintaining existing capacity or investing in new capacity needed to guarantee security of electricity supplies. Capacity mechanisms have an impact on competition in the internal electricity market. Many of these mechanisms involve State aid, so they are subject to EU State aid rules. The European Commission has launched a sector inquiry. This will examine the forthcoming provisions of the revised Regulation 714/2009 and will compare the situation in Italy and Spain. The Guidelines on State aid for environmental protection and energy 2014-2020 (EEAG) contain rules to assess capacity mechanisms (Section 3.9 of the EEAG). This is a relatively new field in State aid policy.

Method

The method we shall use is to collect as much evidence as possible of the consensus around the need to design capacity remuneration mechanisms in such a way that competition is not distorted. We shall examine the decisions already taken by the European Commission, in relation to a number of countries. We shall review the situation of capacity remuneration mechanisms in Italy and Spain. After this "factual" approach, we shall evaluate them at the light of the revised Regulation 714/2009. In the accompanying Memorandum of the revised Regulation 714/2009, the European Commission states its preference for the so-called 'energy-only market' option. However, the Commission remarks that this does not discard the possibility for Member States of using capacity mechanisms, provided these are based on a shared resource adequacy assessment methodology carried out in full transparency through ENTSO-E and ACER and comply with common design features for better compatibility between national capacity mechanisms and harmonised cross-border cooperation. Legislation is needed in this area to address the issues in a consistent way.

Results

The result of this regulatory approach of the European Commission will lead to the approval of a revised version of Regulation 714/2009, which contains new and very relevant provisions on capacity mechanisms. New Chapter IV (articles 19 to 24) of said norm contains specific rules, which we are going to analyse. In particular, we want to explain if and how the approval of said norm will influence the existing mechanisms.

Conclusions

Future Article 24 of the revised 714/2009 states that Member States applying already capacity mechanisms shall adapt their mechanisms to comply with Articles 18, 21 and 23 of this Regulation. We want to examine the existing mechanisms, in particular the Italian ones, which were approved by the European Commission. In the case of Spain, the existing capacity payments were abolished in 2018, but some kind of mechanisms must be adopted in the near future. We want to conclude by making an assessment on the two systems.

References

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