

MITECO consultation on implementation of capacity mechanisms in the Spanish electricity system



EFET response – 25 September 2020

The European Federation of Energy Traders (EFET)¹ welcomes the opportunity to provide comments to the consultation document on the implementation of capacity remuneration mechanisms (CRMs) in the Spanish electricity system.

As a preliminary statement, we would like to remind of our fundamental position that establishing or maintaining a CRM should not come at the detriment of the design and efficiency of energy markets. Furthermore, CRMs create market impediments or distortions that might result in barriers to entry for traders.

This principle, now enshrined in Article 20(3) of Regulation 2019/943, aims at ensuring that energy markets allow for optimal dispatch and contribute to security of supply. On the other hand, CRMs complement energy markets, whenever the market is not fully able to provide long-term signals and adequate conditions to either attract necessary investment or to maintain power plants that would otherwise be mothballed or decommissioned.

Both the dimensioning of CRMs and cross-border contributions to these CRMs should take account of the design of energy markets in the relevant bidding zones. Where CRMs are established or maintained, the implementation of Regulation 2019/943 and related methodologies, like the ones currently under consultation, should ensure compatibility of the different schemes and, where relevant and feasible, harmonisation.

Therefore, we encourage MITECO to provide an overview of the measures that Spain is planning to adopt in order to eliminate the market distortions, also in light of Article 20.3 of Regulation (EU) 2019/943 - which will contribute to reducing adequacy issues in the medium to long term and to integrating renewable energy sources into the system. On this regard, the priorities should be:

- Allowing for the market to work and provide the most cost-efficient solutions/technologies rather than overregulating it with suboptimal results (e.g. balancing and ancillary services procurement);
- Promoting European market integration and harmonization;
- Removing price limits;
- Increasing interconnection with France, since Spain is the only EU country that falls below the 10% target in 2020. Although the foreseen 8 GW of interconnection by 2030, Spain is very far from for the EU binding target of 15% of interconnection level for 2030 and according to the last TYNDP monitoring report, there is a delay in the upgrading of the interconnection level foreseen in 2025.

We recall our core belief: CRMs, where implemented, should be carefully designed in order not to interfere with the free formation of price signals in the energy markets. With this respect,

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

EFET recommends the Spanish and EU institutions to design a CRM which reacts upon undistorted price signals and allows the most efficient solution to be provided by the market.

Q1: From the perspective of all the market participants involved, are the capacity mechanisms necessary to guarantee the existence and availability of the means of production, demand response management and storage necessary to guarantee security of supply while meeting decarbonization targets? If this is the case, for what reasons might the mechanisms provided for in Article 20 of the Internal Electricity Market Regulation be insufficient to guarantee coverage of demand?

CRMs, in market-based conditions, could help in ensuring backup capacity availability as a temporary measure. This is even more crucial in a decarbonization pathway as, with coal and nuclear phase-out, renewables paving their way and few solutions able to provide large scale (and for a long timeframe) storage (even seasonal), enough to “stabilize” the renewables intermittency, other technologies are required to provide this backup.

Notwithstanding, this backup capacity is not expected to be required often along the year (as it is a on demand system stabilizer), which hinders its economic viability. As an “insurance” of security of supply, energy market only (understood as forward and spot markets – which are by the way marginal markets) is not enough to remunerate those backup generation and demand units which should be remunerated for their availability. In fact, decreasing trends of marginal prices, with very few working hours, and price limits that do not signal for scarcity, won’t be enough to remunerate these types of assets, and these may shut down, posing risks of security of supply.

As for the “means”, any CRM should establish the conditions of the service to be provided (capacity, ramp up times, availability, prenotification times, etc) and the mechanism in itself should be technology neutral. The market should come up with the most suited solutions.

In fact, though these are still in a very early stage in most markets, even in local flexibility markets there is procurement of firm capacity availability, disregarding if these become actually activated or not. Because, otherwise, there may not be enough firm capacity available when needed.

Naturally, as foreseen in IEM Regulation, this must take into account the results from long-term resource adequacy assessments, state of the art in interconnections, stakeholders’ participation, etc, to provide the whole “picture” for the upcoming years and adequate this tool accordingly.

Q2: In your case, what type of scheme is considered the most appropriate, taking into account the guiding principles established in community regulations (reservas estratégicas, mecanismos competitivos de capacidad, modelos de licitación de nueva capacidad, otras...)? Why? Does the model you propose resemble any of those existing or planned in other European countries?

Any mechanism should work in market-based conditions, in a competitive framework, to achieve optimised cost-efficient solutions. This is, in our understanding, aligned with IEM Regulation and also resembles to most existing or planned mechanisms across Europe.

Q3: In relation to the storage sector and the demand response, what limitations to the penetration of these options are observed from the point of view of access to electricity markets? To what extent is the implementation of capacity mechanisms necessary to achieve the storage objectives of the NECP, while maintaining full compatibility with Regulation (EU) 2019/943?

CRMs should be technology neutral and they have a concrete goal to assure decarbonization while not risking security of supply. In this sense, according to the conditions established for a mechanism (according with the needs for the system as a whole, or for certain more local realities, CRMs should not be seen as a tool to promote one technology over others and should not lose sight of the goals one must compromise to achieve, and storage is one of the technologies, one of the options, but it may or not be the most suited for the system needs and at a certain development stage.

On the other hand, there should be conditions that allow to take full advantage of the technologies potential, so some of the complexities associated to smaller and decentralised resources may be overcome for instance through aggregation, following the same principle that should apply also to more centralized resources by allowing for assets management optimization as a portfolio.

Q4: In the design of these mechanisms, how do you consider that the principles of technological neutrality and of avoiding overcompensation enshrined in community regulations should be combined with the decarbonisation objectives and the particular needs of the Spanish electricity system? How should different time horizons be taken into account to combine predictability and investment certainty with optimizing costs for consumers?

Consistency between the CRM and other policy objectives at Spanish and European level is important. As EFET, we strongly support the principles of technological neutrality, but taking into account the carbon emissions limit established in article 22.4 Regulation 2019/943, it would be important to consider including ACER's guidelines on CO2 emission limits for generation capacity in the framework of the Spanish CRM to ensure consistency of this element of its design with that of other European CRMs.

Q5: In the case of developing new capacity mechanisms in our country, how could they be designed to allow the cross-border participation of facilities from other Member States, in accordance with the provisions of Article 26 of Regulation (EU) 2019 / 943?

As stated in our response to ACER consultation on ENTSO-E proposals for technical specifications for cross-border participation in CRMs², we insist on two fundamental principles, namely:

- **Effective direct participation of foreign asset owners/operators** – generation, demand response, storage – in CRMs, with appropriate incentives and/or obligations on transmission system operators (TSOs), where this effective participation depends on them.
- **Equal treatment of foreign and domestic capacities** contributing to a CRM, with attention to the specific rights and obligations of capacity providers in the CRM and, where relevant, related to energy market functioning.

The aim of CRMs is to ensure security of supply by giving long-term price signals to drive investment in new capacity and ensure the availability of existing generation, demand response and storage assets for this purpose. Cross-border participation in CRMs should contribute to the achievement of this objective.

Complex and cumbersome systems for cross-border participation entail a high risk of leading to market foreclosure – or have already done so. We invite MITECO to ensure simplicity in the system(s) they put in place to ensure effective, not just theoretical, cross-border participation of foreign capacities in CRMs, and avoid excessive administrative and financial burden for TSOs and/or market participants alike, in order to achieve security of supply cost-efficiently.

Q6: What actions are considered necessary, if any, to ensure the continuity and availability of a sufficient firm generation park in order to be able to count on your contribution in the scenarios provided for in the NECP?

Q7: Is any type of additional regulation on generation facilities considered necessary if they are not needed for a period of time, but can be re-incorporated when their contribution is required?

No comments.

Q8: What other measures, other than capacity mechanisms, can make it possible to achieve the environmental and energy objectives (flexibility, other specific solutions on the demand and storage side, etc.)?

Other measures may certainly work along with CRMs as, these are different and complementary tools within the market design. Flexibility - in particular given the nature of renewables, how they behave, and how they affect the system – is a fundamental topic so ancillary services markets should be established in a way that recognize the need for flexibility

² See also [EFET response to ACER consultation on ENTSO-E proposals for technical specifications for cross-border participation in capacity mechanisms](#)

and technology neutrality, in compliance with harmonized rules established in European network codes.