

Energy Market Design

Reply to the European Commission's public consultation on a new Energy Market Design, 08/10/2015

Introduction

EDORA (Fédération des Energies Renouvelables, Belgium) welcomes the Commission's communication launching the public consultation process on a new energy market design¹, notably its aim of setting the necessary framework conditions for a flexible and efficient market that can fully integrate increasing shares of renewables, of demand response, storage and smart systems. A more performant market design, which puts

- renewable energy at the core of the generation/supply side ;
- efficiency, demand response, storage and smart systems at the core of the demand side

will guarantee security of supply, minimize costs and enable innovation and sustainability.

In its framework strategy for a resilient Energy Union with a forward-looking climate change policy², the Commission stressed the need to transform the existing centralized and conventionally-fuelled energy system into one "fit for renewables". The revision of the market design needs to ensure the decarbonisation of the energy system, in addition to security of supply.

It is essential to concretely implement all measures improving the Energy Only Market before the creation of any capacity market. It is also fundamental to suppress all conditions supporting inflexibility (as it is the case for nuclear generation capacity), in order to ensure a level playing field among all assets.

Distributed generation is closely linked to consumption, on a geographic point of view. Flexibility Service Providers (FSP) are considering all decentralised assets on the same basis: generation, consumption and storage. Flexibility should be declined under these three pillars in the most coherent way. It seems therefore obvious to consider distributed generation assets, storage units and demand response services at the same time in an integrated manner.

Access issues to energy markets are the same for all grid users. All market access improvements have to address these three pillars. Principles guiding the opening of the markets should be identical, to avoid discrimination among all flexibility options.

¹ COM(2015) 340 final.

² COM(2015)080 final.

Short-term Markets

1. *Would prices which reflect actual scarcity (in terms of time and location) be an important ingredient to the future market design? Would this also include the need for prices to reflect scarcity of available transmission capacity?*

EDORA strongly supports the existence of scarcity pricing in a future market design.

Prices reflecting actual scarcity and rewarding flexible production/consumption are key ingredients of the market design. On the production side, flexibility should be rewarded for those renewables and storage systems that are dispatchable. On the demand side, demand response and storage empower consumers to benefit from electricity when cheaply available. This also includes the need to reflect scarcity of available transmission and distribution capacity, to better manage congestion issues.

To ensure prices better reflect scarcity, we need:

- Better liquidity and integration of intraday and balancing markets. These short-term markets are crucial as variable renewable energy sources take a more important role in the power mix.
- A re-definition of products and services to improve the granularity of these markets and enable the sale of different system services that solar power and other renewables, but also storage and demand participation can provide. Today, decentralised and aggregated producers and consumers have limited access to balancing and ancillary services and other electricity markets;
- It should be noted that the current oversupply of power generation in Europe is leading to a dilution of market price signals. The European Emissions Trading Scheme is currently insufficient to provide a price signal for the most polluting power plants to retire and make space for important new investments in the market. In this context, Europe's power market is showing artificially low prices, and paradoxically pushes out less polluting and flexible capacity. Only if price signals reflect the full cost of electricity today, and if a variability of prices shows at what times power is cheaply available and when it is short, will Europe develop a power market in which different generators and flexibility options will receive the market signals they need.

2. Which challenges and opportunities could arise from prices which reflect actual scarcity? How can the challenges be addressed? Could these prices make capacity mechanisms redundant?

Prices better reflecting scarcity will be more volatile and might be higher than today during some periods of the day (assuming the end of price caps).

Rather than a challenge, this represents an opportunity as it will unlock new strategies to hedge against risks on the wholesale market while triggering dynamic pricing offers on the retail side.

With prices better reflecting scarcity, flexible assets will operate in a more appropriate market environment. Such prices will indeed address the need of securing additional remuneration of power plant operators and to incentivise the displacement of demand therefore decreasing the peak load. The market will naturally develop solutions based on demand and supply based on dynamic pricing.

Energy Only Markets have to be further developed to enable the use of various flexibility potentials. Capacity mechanisms hamper the full implementation of the internal energy market, especially by limiting the use of cost-effective balancing potential. In the circumstances where a lack of generation/demand adequacy is raised, a full and transparent adequacy assessment – taking grid expansion measures and regional cooperation into account – should be conducted. The adopted measures should be temporary and – as a rule – open to cross-border participation, and the Member State in which the measure is implemented should not restrict the cross-border trade of electricity in times of scarcity.

3. Progress in aligning the fragmented balancing markets remains slow; should the EU try to accelerate the process, if need be through legal measures?

The rules and regulations governing today's electricity market are largely fit for conventional power generation, but they often hamper new technologies and solutions leading to a reduction of the efficiency of the overall system. A greater granularity of products evolving more to procurement procedures on a short term near to real time would improve system efficiency and stability, while allowing for an inclusion of all cost-effective offers. The European Target Model for the Internal Electricity Market has brought about important progress towards more flexible and inclusive markets, but it does not yet go far enough to provide a true level playing field for all market participants. Besides the Balancing Network Code developed by ENTSO-E, additional work is therefore needed on the granularity of balancing products.

4. *What can be done to provide for the smooth implementation of the agreed EU wide intraday platform?*

The renewable energy industry welcomes the coupling of intraday markets. Functioning intraday markets are crucial for the efficient and cost effective integration of large amounts of variable energy and for cost efficient demand response, storage and system operation. Appropriate design of intraday and balancing markets and much closer cooperation between Member States is required to enable European market integration.

Balancing over greater areas not only reduces the need for flexible reserves, but also the system's vulnerability to unforeseen and disruptive events as well as the variability of renewable energy sources. Transmission system operators and power exchanges are key areas where cooperation needs to be increased and rules harmonised to allow for efficient cross-border transmission capacity and congestion management. To this end, the system operators need to improve and intensify regional and cross-border cooperation, for example by following a more proactive approach in balancing market arrangements.

In order to ensure a smooth implementation, the implementation of the Local Implementation Projects by TSOs should be done in parallel of the platform development. ACER could also be given increased oversight responsibilities. The target implicit model with an explicit access to cross border capacity could be used as fall-back solution to guarantee that intraday capacity can be used even when the implicit platform is not available. The "quick wins"/clever planning should be implemented locally to allow more cross-border access to intraday capacity, and thus more flexibility to compete in the market in the meantime.

Long-term markets to enable investments

5. *Are long-term contracts between generators and consumers required to provide investment certainty for new generation capacity? What barriers, if any, prevent such long-term hedging products from emerging? Is there any role for the public sector in enabling markets for long-term contracts?*

Preliminary remarks

- Renewable energy investments require stable investment conditions to develop. Today, these conditions are not given in the open market for variable renewables, despite their cost-competitiveness. This is mainly driven by the fact that power market prices decrease, when wind or solar power produce electricity cheaply. This effect is enhanced further by the surplus of must-run capacity in the electricity system
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- A flexible power system articulating storage, demand and decentralised generation make the best use of the price effect. The market-competitiveness of renewable energy sources will improve with the empowerment of the consumer. This improvement will be considerably strengthened if the Emissions Trading Scheme adequately reflects reflect the true cost of CO₂ emissions;
- But the CO₂ price will not be enough to provide enough investors' certainty. This is not only true for renewables, as we see today that decisions in investments in low-carbon technologies are not taken on the basis of the CO₂ price. A clear and reliable governance system to ensure the binding character of the EU 2030 renewable energy target should therefore be developed, alongside a reliable regulatory framework for renewables after 2020. This is critical to minimise the cost of capital and thus to ensure a cost-efficient energy transition.

With the transformation of the power market, allowing for scarcity pricing, the electricity exchange will increasingly develop long-term contracts, especially as they offer additional revenues to flexible consumers. These contracts will also help to bring more investment security both for new small-scale, decentralised, and large-scale renewable generation capacity. Long-term contracts should be left to the market. Their prices reflect the players' willingness to pay and their assessment of price peaks' frequency. The resulting prices are cost-efficient, and allow a refinancing of generation capacity at the lowest possible price for consumers.

However, the public sector can lead by example, for instance by sourcing renewable electricity via long-terms contracts for all its public buildings or energy consuming activities.

6. To what extent do you think that the divergence of taxes and charges levied on electricity in different Member States creates distortions in terms of directing investments efficiently or hamper the free flow of energy?

In so far they reflect national policy choices (climate taxes, energy taxes,...) and differing budgetary conditions, it seems difficult to go for a progressive harmonization of taxation regimes.

However, disproportionate, discriminatory or unstable taxation regimes should be avoided as they have a clear effect on the investment decisions. Some taxes and charges may distort the functioning of the wholesale markets. As example, in Belgium, injection tariffs (up to 6€/MWh), applied to all generation, does create a direct disadvantage between a Belgian asset against the same asset in another MS. In a more "European" market, this is absolutely not desirable.

In a future-oriented energy system, based on renewable energy, flexibility of both demand and generation will be key to strengthening energy security. Tapping into the potential of various flexibility options requires a swift and thorough revision of the state-imposed price components, so that price signals of the energy market reach all players, thereby facilitating innovation and competition. Greater information should be made available so that the differences in national markets design and structure can be better understood between Member States. The European Commission and ACER should develop a common understanding of cost reflectivity of network charges.

Renewable generation

7. What needs to be done to allow investment in renewables to be increasingly driven by market signals?

Several reforms need to be pursued in parallel:

- A first obvious pre-requisite is to make sure that renewables, the same way as demand response and storage, can have – directly or via an aggregator - a fair access to all markets. As mentioned earlier, several barriers are still standing on the way. More should be done to ensure that electricity from prosumers and other decentralized producers like cooperatives can effectively reach the market ;
- For those renewable energy projects which are developed via market-based mechanisms such as auctions, a careful attention should be paid to the design parameters. It is key to ensure enough competition and to avoid underbidding for instance ;
- Investors' long-term visibility and certainty is crucial. The already agreed 2030 EU-wide binding renewable energy target should be underpinned by a strong governance and post-2020 regulatory regime to ensure that market decisions are taken within a clear policy environment. There is also a need to fix national binding targets ;
- Besides these renewable-specific considerations, one should more generally ensure that the price distortions are lifted by:
 - Adequately make power prices reflect the true cost of externalities and specifically CO₂ emissions of the different forms of power generation. The reforms to strengthen the ETS regime should therefore be pursued without delay;

- Stopping the direct and indirect subsidization of non-renewable technologies. As shown by the recent EC report on energy subsidies, all technologies continue to benefit under one form or another from subsidies. Recent national decisions also show that new investments in the non-renewable power sector are still based on substantial amount of State Aid. According to a recent study of the International Monetary Fund Energy Agency (IMF)³, fossil fuel companies are benefitting from global subsidies of \$5.3 trillion (€4.74 tn) per year. The study demonstrates that fossil fuels are not cheap by showing their real costs. An Ecofys study for the European Commission on electricity prices, costs and subsidies⁴ demonstrates that the fossil fuel industry is the biggest beneficiary of public support. Crucial awareness, however, is missing in many Member States: By subsidizing nuclear power, like the Hinkley Point C project for example, countries like Great Britain are continuing to bet on technologies which have had decades to prove their competitiveness on the market, but have completely failed to do so;

Extending the geographic size of markets through grid reinforcements and a balanced approach that includes both supply-side and demand-side management will help in this respect.

Finally, the design of the market should make it possible for new actors to participate, in particular citizens and energy cooperatives. Prosumers should be at the heart of the new market design, in which the rights of self-consumption and self-production should be enshrined. Prosumer policies should facilitate the reduction of peaks and unlock demand-side flexibility through specific programmes that could bring new technologies to the market.

8. Which obstacles, if any, would you see to fully integrating renewable energy generators into the market, including into the balancing and intraday markets, as well as regarding dispatch based on the merit order?

EDORA believes that the first step towards integrating renewables into the market is removing market distortions. Reforming the European emissions trading system to reflect the true costs of greenhouse gas emissions and reducing the fossil-nuclear overcapacity and the minimum generation of conventional power plants are prerequisites for renewables' integration and for the completion of a fully-functioning internal energy market.

More specifically on the dispatch based on the merit order:

³ [IMF: How Large Are Global Energy Subsidies?, May 2015](#)

⁴ [Ecofys 2014 by order of: European Commission, Subsidies and costs of EU energy. Final report, November 2014](#); [IMF: How Large Are Global Energy Subsidies?, May 2015](#).

- Variable RES electricity is produced at almost zero marginal costs. In theory, electricity produced from variable RES-based power plants should be the first one to be sold on the market and to be taken up by the grid. If network issues (i.e. grid constraints) arise, it might however appear much simpler and safer to scale down renewable energy generation than inflexible nuclear or coal power. In a way, one can consider that some inflexible power plants have a “technical” priority dispatch. If some generation assets (including renewable energy generation) are “redispatched” to prevent network issues, they should be properly compensated for providing this service to the system, including for the possible loss of profit linked with support schemes.
- Grid constraints can be addressed by matching production, storage and demand patterns rather than curtailing the production. Yet, contractual, technical and market barriers today prevent consumers willing to decrease or shift their demand from doing so. In this context, priority access and dispatch for renewable energies are crucial to encourage the update and extension of the grids on the one hand and to boost flexible power production technologies and elastic consumption behaviors on the other hand.

Balancing and intra-day electricity markets need to be designed in a way that provides access to all generation and demand assets to allow flexibility. Opening the markets to more consumers and producers, simplifying and encouraging demand response and storage, and giving faster balancing and ramping responses are key for a well-functioning system.

The ‘energy-only’ market should be improved through creating a strong regulatory framework moving towards more transparent market prices determined in all time horizons including forward, day-ahead, intraday and real time.

9. Should there be a more coordinated approach across Member States for renewables support schemes? What are the main barriers to regional support schemes and how could these barriers be removed (e.g. through legislation)?

A sustainable approach needs to include similar renewables’ expansion targets at a regional level and the adaptation of support schemes and investment conditions towards a more uniform framework. It is essential that this adaptation is subject to high quality standards, and not Member States agreeing on the lowest common denominator.

A more coordinated approach across Member States should definitely be a medium to long-term objective. We however have to consider the differing starting points, market conditions

and national specificities (e.g. cost of capital, administrative costs, etc.) which still justify today tailor-made approaches.

Secondly, enhanced coordination can be envisaged if the costs stemming from the above mentioned national specificities are progressively converging. The EU legislation can help in this regard by ensuring that administrative and regulatory costs are getting to more similar levels in the different Member States: the post-2020 regulatory framework for renewables should therefore go further in terms of harmonized simplified permitting procedures (obligation to set up one stop shops with predefined maximum time limits to grant authorization and grid connection).

Coordination also reinforces the Commission's approach of fostering more regional cooperation (including the definition of cooperation mechanisms in the RES Directive 2009/28/CE) and prevents the artificial splitting of markets. Regional cooperation should build on a coordinated regional policy planning, joint projects between Member States as well as joint research activities and co-funding for innovative technologies (for example second-wave renewable energy technologies). Given the overlap between the five Energy Union dimensions, a regional approach should prioritise issues of common relevance namely power system management, spatial planning, and infrastructure development.

A well-designed and functioning market with high shares of renewable energy and abundant and competitive flexibility options can guarantee security of supply. For this, we need to reduce the investment uncertainty stemming from the lack of binding national targets for 2030. A new Governance Framework is needed, which guarantees investor certainty by providing a clear and timely indication of Member States' contributions to meet the overall European goal and ensures achievement of the renewable energy target of at least 27% by 2030.

Demand response

10. *Where do you see the main obstacles that should be tackled to kick-start demand response (e.g. insufficient flexible prices, (regulatory) barriers for aggregators / customers, lack of access to smart home technologies, no obligation to offer the possibility for end customers to participate in the balancing market through a demand response scheme, etc.)?*

Demand-side response, with increased energy efficiency and savings, storage and renewable energy are key to move towards an efficient, cost-effective, decarbonised energy system. An optimized market design should incentivize industry, commerce and households to play an active role in reaching adequacy, by shifting their power demand from times of high

residual load to times of low residual load. Households should have the opportunity to play an active role in the market, through dynamic pricing.

Unlocking demand-response at all levels is key to facilitate adequacy between supply and demand. We see two main fields where reinforced efforts are needed:

- A facilitating framework for self-consumption: self-consumption is a key driver for demand-side flexibility. Because it makes the best use of on-site generation and will steer the development of solutions such as storage, smart appliances and more flexible contracts for consumers. Such a framework for self-consumption should be addressed in the post-2020 RES Directive on the basis of the guidance recently published by the European Commission. Standardization activities can in parallel facilitate the deployment of smart home appliances and technologies.
- An appropriate framework for demand side response, storage and specifically aggregators (which pool flexible consumers and decentralised producers): third parties should have a full 'access' to the end-consumers. Balancing responsibilities and contractual arrangements between BRPs, suppliers and third party aggregators should be further clarified.

Smart meters are also critical to advance demand response further: they allow consumers to get settlement according to the balancing period and enable an accurate measurement of demand response actions. In order to ensure smooth functioning, the design of the current balancing and intraday markets must be upgraded, for instance by introducing possibilities to trade balancing forward and more sophisticated products, implementing timeframes that better fit the flexibility requirements (ramp-up and down rates, product size etc.) and developing additional flexibility services for system operators.

Cooperation between system operators

11. *While electricity markets are coupled within the EU and linked to its neighbours, system operation is still carried out by national Transmission System Operators (TSOs). Regional Security Coordination Initiatives ("RSCIs") such as CORESO or TSC have a purely advisory role today. Should the RSCIs be gradually strengthened also including decision-making responsibilities when necessary? Is the current national responsibility for system security an obstacle to cross-border cooperation? Would a regional responsibility for system security be better suited to the realities of the integrated market?*

Security of supply should be considered in the European context, and not as a national issue. This means that Regional Coordination Initiatives could play an important role in strengthening regional dimension through transnational contracts.

Enhanced cooperation between TSOs is necessary. This can happen without necessarily giving increased decision making responsibilities to RSCIs. Clarifying or, where appropriate, reinforcing the roles and responsibilities of ENTSO-E and the ACER seems a better option in order to maintain a manageable set of actors.

The cooperation between TSOs and DSOs is of critical importance to ensure coordinated infrastructure planning and maintenance, and exchange of information. Coordinated planning of infrastructure investments should be implemented through formalised operational frameworks between TSOs and DSOs located in the same balancing area. The platform recently created within ENTSO-E could for instance develop recommendations on these questions and get a more formal role in the development of network codes. Current national responsibility for system security is not an obstacle, and institutions such as ACER and ENTSO-E are already contributing to increased cooperation.

Adapting the regulatory framework

12. *Fragmented national regulatory oversight seems to be inefficient for harmonised parts of the electricity system (e.g. market coupling). Would you see benefits in strengthening ACER's role?*

EDORA supports a strong ACER, as some standards require European harmonization. It could become legally responsible for the further integration of intra-day markets with a clear timetable based on a mandate from the Council and the European Parliament. We also advise considering the need of solid supervision and transparent coordination which means identifying the right governance structures to make the most out of regional power markets. This will allow to build trust beyond borders and to ensure cost-savings and system optimisation.

In general, the role of ACER should be to realise seamless cooperation of NRAs as one regarding efficient cross-border intraday platform issues and in particular regarding the implementation of network codes and guidelines and the related projects. Moreover, ACER should be able to act upon objectively observed disagreements among NRA. ACER should remain an Agency for cooperation of NRAs but its accountability and transparency of governance should be increased by for instance defining terms of reference of the participation of NRA; making the NRAs accountable for the requested work and monitor it. ACER could also define governance rules for power exchanges.

13. *Would you see benefits in strengthening the role of the ENTSOs? How could this best be achieved? What regulatory oversight is needed?*

EDORA welcomes the strengthening of ENTSO-E and ENTSO-G, especially if the prediction is that there will be much more transmission between different areas, and encourages increasing the transparency of processes and the inclusion of multiple stakeholders in decision-making. Strengthening ENTSO-E could increase EU member states' cooperation on EU energy policy implementation and energy policy objectives' achievement. The list of deliverables expected from ENTSOs and defined in the third package is already very long. The priority should be to ensure that all the resources of ENTSOs are dedicated to the implementation of this mandate, and in particular the development of network codes.

As mentioned earlier, ACER should in our view be in the driving seat for being the one responsible for the market coupling process.

14. *What should be the future role and governance rules for distribution system operators? How should access to metering data be adapted (data handling and ensuring data privacy etc.) in light of market and technological developments? Are additional provisions on management of and access by the relevant parties (end customers, distribution system operators, transmission system operators, suppliers, third party service providers and regulators) to the metering data required?*

EDORA believes that the role of distribution system operators (DSOs) is to enable the competitive development of smart systems and the development of distributed generation and energy storage. Options to adapt their systems should be driven by Cost Benefit Analysis in order to increase the social welfare.

Given the increased penetration of distributed generation and the increasing need to harvest flexibility at the decentralized level, DSOs should facilitate flexibility services from distributed generation in order to strengthen their grid operation efficiency or defer grid reinforcements. Resources connected at DSO's level could also participate in the balancing of the system. At a local level, regulation should guide DSOs to solve technical issues on their local grid through markets (i.e. local congestions and voltage regulation), to support dispatching services and to enable demand response. In markets with high renewable penetration, voltage support should also be considered (eg. Compensation in a competitive process, either in a regular bidding process or an auctioning arrangement, see REserviceS recommendations).

As regards metering data, a critical legal topic is the collection and use of data. In EDORA's view, data sovereignty should be in the hands of the user; consumers should decide whether

and which data they make available. It is therefore important that consumers have easy access to their own data and are given the tools to understand the available information. Flexibility Service Providers (FSP) and/or suppliers must have access to the metering information (either head or sub-meter) that will be used for settlement. This access should be local and central (validated or corrected data).

EDORA is strongly in favour of sub-metering to allow flexible demand and local production to be accurately measured so their respective contribution can be assessed directly. Sub-metering allows to significantly improve the settlement for cases where the head-meter includes the measurement of non-controllable demand. There is neither need nor added value in giving this task to a regulated party as a monopoly. What needs to be achieved is that the buyers of the DSR service (TSO, market ...) are satisfied with the proposed metering and establish the objective criteria they require to satisfy their specific needs.

15. Shall there be a European approach to distribution tariffs? If yes, what aspects should be covered; for example tariff structure and/or, tariff components (fixed, capacity vs. energy, timely or locational differentiation) and treatment of self-generation?

EDORA supports a strong revision of the distribution grid charges regime. Overall, an effective scheme is one that facilitates increasing system flexibility, support energy efficiency measures and removes adverse incentives for operation that does not serve the system. Demand-side response should also be valued, together with self-consumption and other mechanisms incentivising consumers to actively participate to the market. All barriers to self-consumption should be removed.

Regional cooperation should also play an important role, as Member States can learn from each other how to optimize the system for increased flexibility and better integrate renewable energy in order to succeed in the transition to a 100% renewable electricity system.

Distribution (and transport???) tariffs should

- Allow to improve the efficiency of the system and the quality of the grid in optimizing the social welfare. New key performance indicators are therefore needed;
- Be transparent to all system users to enforce their confidence in the central of system operators;
- Suppress injection tariffs ;
- Ensure coherence with transport tariffs and global framework ;

EDORA recalls that tariffs methodologies are essential to promote and facilitate the development of smart solutions at all levels, with the goal to maximise the social welfare. The assessment and adaptation of these methodologies should be seen in this way.

16. *As power exchanges are an integral part of market coupling – should governance rules for power exchanges be considered?*

Power exchanges should not be subject to governance rules. An optimized power market allows for prices where supply and demand intersect or peak pricing, making power exchanges the main venue for investments, competition and innovation, as more and more transactions will be conducted here. Power exchanges are capable of self-regulation and there are rules in place that allow participants to complain according to existing competition law.

17. *Is there a need for a harmonised methodology to assess power system adequacy?*

EDORA strongly supports a harmonised methodology to assess regional power system adequacy. The integration of large amounts of renewable energy sources fluctuating into the system, new storage technologies and an increase shift of load call for a harmonised methodology to improve interconnection assessments, and a transparent methodology to foresee the developments of grids. A dynamic consideration of the energy system requires increasing the overall system efficiency and identifying the existing obstacles to the development of flexibility options and their removal.

These assessments should determine whether capacity markets are or not necessary for security at a regional level. Any capacity mechanism is an intervention in the existing market. If badly designed, such mechanisms can lead to lock-in effects and support some technologies, whilst excluding others. This is why a thorough analysis is important to understand if intervention in the form of capacity or other capability mechanisms is really needed.

18. *What would be the appropriate geographic scope of a harmonised adequacy methodology and assessment (e.g. EU-wide, regional or national as well as neighbouring countries)?*

EDORA supports the development of a harmonised methodology to assess regional power system adequacy, which includes all currently coupled markets.

19. *Would an alignment of the currently different system adequacy standards across the EU be useful to build an efficient single market?*

A well-designed and efficient single market is one of the cost-effective pillars to achieve the European and national climate and energy targets, while strengthening security of energy supply at the lowest cost. As we are working towards its completion, the alignment of different system adequacy standards can play a significant role.

20. *Would there be a benefit in a common European framework for cross-border participation in capacity mechanisms? If yes, what should be the elements of such a framework? Would there be benefit in providing reference models for capacity mechanisms? If so, what should they look like?*

Market signals should have first priority, and intervention should be taken only in case it is found to be inevitable to maintain a secure power system and drive innovation. Any mechanism should be reversible, interfere with the market as little as possible. Unfortunately, many of the mechanisms discussed today, take a very narrow focus on so-called "firm capacity" only, excluding many more innovative solutions, including storage and demand response. At the same time, market signals for innovation could be diluted, if capacity supported by a capacity mechanisms also bids into the regular power market. If badly designed, capacity mechanisms thus lead to a lock-in and could hamper, rather than facilitate the transition towards a competitive and secure energy system. In fact, whilst providing financial support for some of the generators that are included in the mechanism, other solutions, including renewable power generation, would have a further increased challenge of recovering their cost.

It is possible that Member States considering the introduction of capacity markets have not fully operational liberalized energy only markets or have not introduced policies that incentivize flexibility. We encourage these countries to increase cooperation with other Member States and profit from the information available regarding the transformation of their energy system. We welcome the Commission's focus on promoting flexibility and cooperation and believe it is the right approach to changing our inflexible, old-fashioned system and achieving our decarbonisation targets.

In the case capacity markets are considered inevitable, their development should be carefully considered and opened for consultation with all relevant stakeholders.

21. *Should the decision to introduce capacity mechanisms be based on a harmonised methodology to assess power system adequacy?*

A harmonized methodology should be part of the decision process indeed. But as indicated above, an adequacy issue should not necessarily lead to the setting-up of a capacity mechanism.

Additionally, a harmonised methodology to assess power system adequacy bears the risk of creating problems it seeks to solve. Participants wanting capacity markets will strive for their introduction and use the methodology as a tool of enforcing them. We therefore suggest assessing market barriers that still need to be addressed rather than introducing harmonised criteria.