

Case No COMP/HT.4624 - Capacity mechanisms - Sector Inquiry on Capacity Mechanisms / Market Participants

Deadline: 17/06/2015

Case No COMP/HT.4624 - Capacity mechanisms - Sector Inquiry on Capacity Mechanisms / Market Participants

Deadline: 10/06/2015

Sector Inquiry on Capacity Mechanisms

The European Commission has found growing concerns among Member States about their security of electricity supplies. Several Member States have reacted to the perceived risk of insufficient generation capacity by introducing measures designed to support investment in additional capacity. For the purposes of this document, an electricity capacity mechanism ('capacity mechanism') must be understood to include any measure used to achieve a level of generation adequacy which involves rewards to capacity providers in addition to or instead of the income which those capacity providers can normally obtain by selling electricity and by providing ancillary and balancing services.

When introduced in an uncoordinated manner capacity mechanisms risk being inefficient, hampering cross-border trade and distorting competition between capacity providers. They also may include State aid within the meaning of Article 107(3) TFEU. According to Article 20a of Council Regulation (EU) No 659/1999^[1], the Commission may decide to conduct an inquiry across Member States into a sector of the economy where it has a reasonable suspicion that State aid measures in a particular sector or based on a particular aid instrument may materially restrict or distort competition within the internal market.

For this reason the Commission has launched a Sector Inquiry into the existence and functioning of capacity mechanisms. The inquiry will shed light on the different types of capacity mechanisms which either already exist or are planned, including tender mechanisms, reserve mechanisms, targeted capacity mechanisms, central buyer mechanisms, de-central obligation mechanisms and capacity payment mechanisms. The Commission will in particular seek information from the relevant public authorities and from stakeholders.

The Commission will publish the preliminary findings from the Sector Inquiry for public consultation before adopting a final report in the course of 2016.

More information on the Sector Inquiry can be found on our [dedicated webpage](#).

For any questions or correspondence please contact us at the following email address: COMP-CAPACITY-INQUIRY@ec.europa.eu

This questionnaire is addressed to market participants. The deadline for replies is 10 June 2015.

Please note that all responses will be treated as non-confidential unless you explicitly indicate otherwise. This means they may be published on the Europa website and your responses and opinions cited in the Commission's sector inquiry report. If you do not agree to your responses (or specific parts of them) being used in this way, please identify any confidential material in the dedicated box at the end of the questionnaire.

^[1] No 659/1999 laying down detailed rules for the application of Article 93 of the EC Treaty (now Article 108 of the Treaty on the Functioning of the European Union) (OJ L 83 of 27.3.1999, p. 1).

Questionnaire signed by:

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I. QUALIFICATION

1 Please indicate the Member State for which you are responding ('the Member State of reference').

All replies you will provide must refer to the Member State you specify here. If your organisation has subsidiaries or branches in other Member States and you wish to provide information on them as well, please complete a separate questionnaire and indicate the Member State of reference in your answer to this question.

Reply:

- () Austria
- () Belgium
- () Bulgaria
- () Croatia
- () Cyprus
- () Czech Republic
- () Denmark
- () Estonia
- () Finland
- () France
- (X) Germany
- () Greece
- () Hungary
- () Ireland
- () Italy
- () Latvia
- () Lithuania
- () Luxembourg
- () Malta
- () Netherlands
- () Poland

- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- United Kingdom

2 Which of the following electricity related activities does your organisation perform in the Member State of reference (multiple answers possible)?

Reply:

- Generation
- Trading
- Supply (retailing to both residential and business customers)
- Demand response (i.e. the delivery, or potential delivery, of electricity by reducing demand from an established baseline)
- Storage
- Interconnector
- Trade association
- Other

2.1 If you have selected 'Other', please explain your answer.

Reply:

About EEX

The European Energy Exchange (EEX) is the leading energy exchange in Europe. It develops, operates and connects secure, liquid and transparent markets for energy and commodities products. At EEX, contracts on Power, Coal and Emission Allowances as well as Freight and Agricultural Products are traded or registered for clearing. Alongside EEX, EPEX SPOT (incl. APX-Belpex), Powernext, Cleartrade

Exchange (CLTX) and Gaspoint Nordic are also part of EEX Group. Clearing and settlement of trading transactions are provided by the clearing house European Commodity Clearing (ECC). For more information: www.eex.com

About EPEX SPOT

The European Power Exchange EPEX SPOT SE operates the power spot markets for Germany, France, Austria and Switzerland. EPEX SPOT also provides market operation services for the Hungarian Power Exchange HUPX and coupling services for 4M Market Coupling on behalf of the Slovakian, Hungarian and Romanian Power Exchanges. Since 4 May 2015, EPEX SPOT has become 100% owner of APX Group including Belpex. APX operates the power spot markets for the Netherlands, the United Kingdom and Belgium. EPEX SPOT is a European company (Societas Europaea) based in Paris with branches in Leipzig, Vienna and Bern, as well as offices in Amsterdam, London and Brussels. 275 companies are active on EPEX SPOT and APX. 382 TWh were traded on EPEX SPOTs markets in 2014, and 92 TWh on APX.

For more information: www.epexspot.com

About APX:

Belpex SA is a licensed power spot market operator active in Belgium since 2006. It operates three market segments: an auction for the day-ahead market, a continuous intraday market and an allocation of strategic reserve (see question 10 below). Belpex is a 100% subsidiary of APX Holding BV, which is fully owned by EPEX SPOT SE.

Belpex is also providing day-ahead market coupling services to Elia System Operator SA for the Belgium-Netherlands and Belgium-France borders. Belpex is therefore a full member of the PCR cooperation and part to the MRC coupling.

Finally, Belpex is providing intraday market coupling services to Elia System Operator SA for the Belgium-Netherlands border.

Within EEX Group we answer the consultation as follows:

Germany: EEX

France: EPEX SPOT

Benelux: APX

2.2 Please briefly describe the overall activities of your organisation and its role in relation to the electricity market.

Reply:

EEX Group provides the central market platform for energy, related products and commodities, with access to a network of more than 400 trading participants.

The Group's offerings extend to contracts for energy, environmental products, freight rates, metals and agricultural products listed on the European Energy Exchange (EEX), EPEX SPOT (including APX-Belpex), Powernext and Cleartrade Exchange (CLTX) as well as Gaspoint Nordic. Clearing and settlement of all transactions concluded or registered on the exchanges is provided by European Commodity Clearing, the Group's central clearing house.

As an exchange under public law, EEX is subject to the German Exchange Act and, as a result, to comprehensive and independent supervision by public supervisory authorities. With a shareholding of 62.82 percent, Eurex Zurich AG, a subsidiary of Deutsche Börse AG, is the majority shareholder of EEX.

EEX Group has its headquarters in Leipzig. In total, EEX Group is present at twelve locations with currently more than 300 employees.

II. GENERATORS

This section concerns key indicators of generation capacity (current and future) owned / operated by your organisation. If your organisation is not involved in the generation of electricity, please skip this Section and proceed to the next one.

3 Please specify the installed generation capacity (in MW) owned / operated by your organisation in the Member State of reference. Please provide data by generation technology and an overall total for the given years.

Reply:

(Not provided)

3.1 If you have selected 'Other', please explain your answer.

Reply:

(Not provided)

4 Please specify whether your organisation plans to close any of the installed generation capacity (in MW) owned / operated in the Member State of reference in any of the given years. Please also provide an overall total of capacity closures

planned by your organisation for the given years.

Reply:

(Not provided)

4.1 If you have selected 'Other', please explain your answer.

Reply:

(Not provided)

5 Please specify whether your organisation plans to open any new generation capacity (in MW) in the Member State of reference in any of the given years. Please also provide an overall total of generation capacity increases planned by your organisation for the given years.

Reply:

(Not provided)

5.1 If you have selected 'Other', please explain your answer.

Reply:

(Not provided)

III. OTHER CAPACITY

This section concerns key indicators of capacity (current and future) other than generation capacity ('non-generation capacity') owned / operated by your organisation. If your organisation does not own / operate capacity other than generation capacity, please skip this Section and proceed to the next one.

6 Please specify the amount of non-generation capacity (in MW) owned / operated / aggregated / managed by your organisation in the Member State of reference. Please provide data by type of capacity and an overall total for the given years.

Reply:

(Not provided)

6.1 If you have selected 'Other', please explain your answer.

Reply:

(Not provided)

7 Please specify whether your organisation plans to close / reduce any of the capacity (in MW) owned / operated / aggregated / managed in the Member State of reference in any of the given years. Please also provide an overall total of non-generation capacity closures / reductions planned by your organisation for the given years.

Reply:

(Not provided)

7.1 If you have selected 'Other', please explain your answer.

Reply:

(Not provided)

8 Please specify whether your organisation plans to increase the amount of non-generation capacity (in MW) owned / operated / aggregated / managed in the

Member State of reference in any of the given years. Please also provide an overall total of non-generation capacity increases planned by your organisation for the given years.

Reply:

(Not provided)

8.1 If you have selected 'Other', please explain your answer.

Reply:

(Not provided)

IV. CAPACITY MECHANISMS

NB: this Section is subdivided into two Subsections. Subsection A should only be completed if one or more capacity mechanisms is currently operational in the Member State of reference. Subsection B should be completed if the introduction of a new mechanism is planned by the government or another public body.

There are various ways of describing and categorising capacity mechanisms. For the purposes of this exercise, six high level designs of such mechanisms are identified:

1) Tender

This is a 'targeted' mechanism because it provides support to the additional capacity expected to be required on top of what the market provides, rather than providing support to the market as a whole.

It is a 'volume-based' mechanism because the volume required is determined at the outset. Typically, the beneficiary of such a tender receives public financing for the construction of a power plant and once the new capacity is operational, he operates in the wholesale market as any other market participant (without a guarantee that the electricity will be sold). However, a long term power purchase agreement to finance new capacity, concluded with the involvement of a public authority, might also fall within this category. However, a long term power purchase agreement to finance new capacity, concluded with the involvement of a public authority, might also fall within this category.

2) Reserve

Another targeted, volume-based mechanism is the 'reserve' model. In this model the capacity contracted is held in reserve outside the market and is only activated to produce electricity when necessary (for example when there is no more capacity available in the market).

3) Targeted Capacity Payment

A third variant of the targeted approach is the 'targeted capacity payment' model. This is a 'price-based' mechanism because the price of capacity is set by a central body, not by the market. This price is then paid to a subset of capacity operating in the market, for example only to a particular technology type, or only to capacity providers that meet specific criteria.

4) Central Buyer

This is a 'market-wide' mechanism because it provides support to all or at least the majority providers of capacity in the market (since there may still be some restrictions on eligibility – for example because some market participants receive alternative support).

The volume of capacity required is set at the outset and the market determines the price at which this volume can be provided through a central bidding process.

5) De-Central Obligation

This is another market-wide, volume-based mechanism. The difference compared to the central buyer model is that in a de-central obligation model there is no central bidding process to establish the price for the required capacity volumes.

Instead, an obligation is placed on market participants (for example electricity suppliers/retailers) to contract sufficient capacity to cover the demand of their customers. They must then make their own arrangements to contract the capacity they require to meet their obligation.

6) Capacity Payment

This is a market-wide, price-based model, in which the price for capacity expected to achieve sufficient investment in the market is fixed, and then the market reacts to the price so that the volume brought forward may vary.

A. CURRENT MECHANISM(S)

Please answer the questions in Subsection A only if there is currently one or more capacity mechanism operational in your Member State. Otherwise, please skip this Subsection A and proceed directly with Subsection B on planned capacity mechanisms.

9 Is any of the following types of capacity mechanisms currently operational in your Member State (multiple answers possible)?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

- Tender mechanism
- Reserve mechanism
- Targeted capacity payment
- Central buyer mechanism
- De-central obligation mechanism
- Capacity payment mechanism
- Other

For each type of capacity mechanism selected in the question above, please provide the data and information requested below. Please separate your answer with subheadings for each capacity mechanisms where appropriate.

10 Please briefly describe the functioning of the selected capacity mechanism(s): for example the objectives of the mechanism(s), type of capacity eligible, form and duration of support available, method of allocating support, and method of financing support.

Reply:

(Not provided)

11 Are any of the following true for the mechanism(s) currently in place in the Member State of reference (multiple answers possible)?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

- Includes a competitive bidding process (auction or tender)
- Open to all types of generation capacity (using different types of input-fuels)

Both existing and new generation capacity can participate

Foreign capacity and/or interconnectors can participate

Final consumers can participate through demand response

Storage providers can participate

12 Do you believe that the existing capacity mechanism(s) is(are) necessary for security of supply?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

12.1 Please explain why you think the capacity mechanism(s) are or are not necessary, especially regarding incentives to invest, remuneration of investments, or market and regulatory failures.

Reply:

(Not provided)

13 Has(have) the existing mechanism(s) enabled investment by your organisation in any of the following types of capacity beyond what would have been possible without the capacity mechanism(s) (multiple answers possible)?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Generation capacity

Storage capacity

Demand response

Interconnection capacity

14 Do you believe that the existing capacity mechanism(s) delivers value for money for consumers?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

14 Please explain your answer.

Reply:

(Not provided)

15 Do you believe that the eligibility criteria for participation to the existing capacity mechanism(s) are fair and non-discriminatory?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

15.1 Please explain your answer.

Reply:

(Not provided)

16 Do you believe that sufficient competition is ensured in the existing capacity mechanism(s), e.g. through the inclusion of different types of capacity providers in any competitive bidding process or market for capacity?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

16.1 Please explain your answer.

Reply:

(Not provided)

17 Do you believe that the contractual obligations (e.g. availability / delivery at times of system stress, period of availability etc.) for capacity providers under the mechanism(s) are reasonable?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

17.1 Please explain your answer.

Reply:

(Not provided)

18 Do you believe that the duration of contracts for capacity providers under the mechanism(s) strikes the right balance between enabling investment decisions and providing value for money to consumers?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

18.1 Please explain your answer.

Reply:

(Not provided)

19 Do you believe that the remuneration offered to capacity providers participating to the capacity mechanism(s) is appropriate, including the mechanism for determining the remuneration?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

19.1 Please explain your answer.

Reply:

(Not provided)

20 Do you believe that the lead time (period between conclusion of the contractual obligation / relationship and the actual delivery / availability period) under the capacity mechanism(s) is appropriate?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

20.1 Please explain your answer.

Reply:

(Not provided)

21 Do you believe that the existing capacity mechanism(s) has(have) led to distortions of competition between market participants?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

21.1 If you answered "Yes", please indicate which of the following features of the capacity mechanism(s) led to the distortion of competition you have identified (multiple answers possible).

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

The criteria to select capacity providers eligible to participate

Different treatment of new and/or existing capacity providers

Different treatment of different technologies

Different duration of contracts for different capacity providers

Allocation mechanism

Other

21.1.1 Please explain your answer.

Reply:

(Not provided)

22 Do you believe that the existing capacity mechanism(s) risk(s) negatively affecting intra-EU trade or fragmenting the Internal Market in electricity?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

22.1 Please explain your answer.

Reply:

(Not provided)

23 Do you believe that the existing capacity mechanism(s) should be amended / improved?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

23.1 Please explain your answer.

Reply:

(Not provided)

24 Is there anything else you want to add concerning the experience you have with the capacity mechanism(s) in the Member State of reference (separate documents can be uploaded at the very end of this Questionnaire)?

Reply:

(Not provided)

B. FUTURE MECHANISM(S)

Please answer the questions in Subsection B only if there is a reasonable expectation that one or more new capacity mechanisms will be introduced in your Member State. Otherwise, please skip this Subsection B.

25 Is any of the following types of capacity mechanisms planned to be introduced in your Member State (multiple answers possible)?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Tender mechanism

- Reserve mechanism
- Targeted capacity mechanism
- Central buyer mechanism
- De-central obligation mechanism
- Capacity payment mechanism

For each type of capacity mechanism selected in the question above, please provide the data and information requested below. Please separate your answer with subheadings for each capacity mechanism where appropriate.

26 Please briefly describe the functioning of the selected capacity mechanism(s).

Reply:

THE CURRENT SITUATION IN GERMANY: NETZRESERVE

There is currently a mechanism implemented in Germany that is similar to the "Reserve" according to the classification of models in this document. The so-called "Netzreserve" was introduced with the Verordnung zur Regelung des Verfahrens der Beschaffung einer Netzreserve sowie zur Regelung des Umgangs mit geplanten Stilllegungen von Energieerzeugungsanlagen zur Gewährleistung der Sicherheit und Zuverlässigkeit des Elektrizitätsversorgungssystems, in short „Reservekraftwerksverordnung“ in mid 2013.

This Netzreserve is meant to resolve local scarcities arising from the nuclear phase out of Germany. Due to this nuclear phase-out, the amount of conventional capacity in the south of Germany has been substantially reduced. Demand for electricity in this area has therefore to be covered by importing electricity from other regions of Germany. However, the network infrastructure is limited. Therefore, the remaining conventional power plants in the south are needed there to ensure security of supply. The "Netzreserve" ensures that power plants that are considered to be essential for security of supply in the south are not being decommissioned. It is controlled by the TSOs and financed via network fees by end consumers.

FURTHER DEVELOPMENT OF THE NETZRESERVE: THE CAPACITY RESERVE

Back-up power plants have two functions in the Greenbook: On the one hand in regard to the Netzreserve, so that in case of congestion enough redispatch capacities are available which can be activated. At the moment this is done via the Reservekraftwerksverordnung however it is limited until 2017. Considering that some grid extension projects won't be finished until 2022 and this coincides with the phasing-out of nuclear power the Greenbook advocated to prolong the ResKV until 2022. On the other hand the Greenbook is in favor of a capacity reserve which shall act as a security net during the transition period towards a new power market design. The Greenbook further proposes that the ResKV could be further developed so that it includes the Netzreserve and the capacity reserve.

The capacity reserve should work similar to balancing power which ought to be provided by Transmission System Operators (TSOs) and used in case that supply and demand do not match. The costs for providing the reserve when needed should be financed via the accounting grids and ultimately by the accounting grid managers which did not fulfill their delivery obligations. Whether and how those costs will occur however is left unanswered.

THE CAPACITY MARKET DEBATE IN GERMANY

In Germany, it has been intensively discussed in the past years whether a capacity mechanism for conventional power plants is needed. Two studies for the German Ministry of Economics and Technology on this question that have been published in the summer of 2014. They advise against the introduction of a capacity mechanism in Germany and argue that an improved Energy-Only Market, the so-called Energy-Only Market 2.0, can ensure security of supply in Germany.

EEX shares the view that the Energy-Only Market 2.0 can solve the challenges which lie ahead. Therefore we have identified several requirements which should act as a guiding principle:

- In case of decision in favour of power market 2.0 > consistent, no turning back to capacity mechanisms
- Unconditional acceptance of price peaks
- Scarcity prices must be received by the market participants without distortions and restrictions
- In case of scarcity: Generators must be able to bid prices above their marginal costs, without any fear of market abuse proceedings (Federal Cartel Office > define clear and transparent criteria)
- Flexibility of both generation capacities and demand needs to be unlocked by price signals. The acceptance in particular of high and volatile prices is therefore essential
- Coordination of the power market 2.0 with neighbouring European countries > national security of supply can be achieved more easily for each member state in a European context
- Maintenance of large and liquid bidding zones in Europe rather than a split-up of established bidding zones (for example Germany/Austria, France)
- Full integration of RES in the market via two measures: 1) Auction-based determination of feed-in tariffs 2) fixed feed-in tariffs per kW of installed capacity instead of floating tariffs per generated kWh

The increase in Renewable Energies and existing over capacities with conventional power plants led to declining prices at the exchanges and to increasing missing cost coverage with producers. As a result the further operation of some conventional power plants as well as investments in new and flexible generation plants to supply secure capacity has been questioned. This development is not the reflection of a malfunctioning market design, but foremost the result of structural changes within the electricity system. These changes can be met with an optimized Energy Only Market 2.0 without the necessity to alter the energy market fundamentally or introduce capacity mechanisms.

The Green Paper by the German Federal Ministry for Economic Affairs and Energy outlines several options to optimize the existing Energy Only Market. A key element of the so called Energy Only Market 2.0 is the development of flexibility, in order to be able to balance out the fluctuating generation of Renewable Energies.

To achieve this EEX and EPEX SPOT will develop matching flexibility products – for example derivatives' products for the marketing of flexibility. One product is the so called "Cap Future" whose functioning we are briefly outlining below:

CAP FUTURE – HEDGING OF PRICE PEAKS ON THE SHORT-TERM INTRADAY MARKET

The concept of the Cap Future is derived from the Phelix Future as the tried and tested market standard; however, its concept deviates from it significantly. Instead of the reference to the average prices of the Day-ahead Market in the known base (base load, hours 0 to 24) and peak (peak load, hours 8 to 20) profiles, an Intraday price index is envisaged as the underlying asset. This ensures that the underlying asset reflects scarcity prices and permits volatility but is also sufficiently robust at the same time.

The integration of price thresholds (so-called caps) permits the targeted hedging of price peaks which are above (or below) this threshold and with regard to which it is not known in advance whether these will materialise, or when, and to which extent, they will occur. Unlike the Phelix Futures (in the case of which the average price during a certain delivery period is fixed), the Cap Future refers to the average of the part of the price distribution which is above the cap, regardless of the time at which the respective prices emerge.

The fundamental assumption on which these energy turnaround products are based is that the market price signal has a control function in the short run and a financing function for flexibility in the long run. A short-term demand for flexibility is created by the generation of renewable energies which cannot be planned with absolute reliability. Market players need tools enabling them to adjust their positions in the short run and to avoid imbalances between generation and consumption. With a view to the long-term financing of flexibility, the challenge is to assess risks arising from short-term volume fluctuations and to transfer these into financial risks which can be controlled with the help of long-term trading products for the hedging of risks. In order to establish new and innovative products both on the short-term and long-term power trading markets, the existing power market has to be optimised and the European internal electricity market also has to be strengthened.

Summarizing this it is our understanding that in the long term the "Netzreserve" is not the appropriate solution. Instead of implementing a capacity mechanism to address the local generation scarcity in the south, we strongly recommend to invest in network grids from the north to the south of Germany. Having achieved this, the "Netzreserve" will become redundant. We therefore believe that there is no need for a capacity market in Germany today. Corresponding considerations have been published in our Working Paper Energy Turnaround Products which we attach to this questionnaire.

DISCUSSED MODELS FOR CAPACITY MARKETS IN GERMANY

A number of models has been discussed in Germany to serve as a back-up solution in the case that there is a decision in favour of the introduction of capacity mechanisms.

We are though not convinced that a capacity mechanism will be required in Germany for the foreseeable future. And, in view of the complexity and of the unresolved problems of all the models, we advise against the introduction of such a mechanism.

If the introduction of a capacity mechanism is to be considered, the decentralised version should be preferred. However, we are strictly opposed to a long-term strategic reserve or selective mechanisms.

27 Are any of the following true for the mechanism(s) planned to be introduced in the Member State of reference (multiple answers possible)?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

- Includes a competitive bidding process (auction or tender)
- Open to all types of generation capacity (using different types of input-fuels)
- Both existing and new generation capacity can participate
- Foreign capacity and/or interconnectors can participate
- Final consumers can participate through demand response
- Storage providers can participate

28 Do you believe that the planned capacity mechanism(s) is(are) necessary for security of supply?

Reply:

() Yes

(X) No

28.1 Please explain why you think the planned capacity mechanism(s) are or are not necessary, especially regarding incentives to invest, remuneration of investments, or market and regulatory failures.

Reply:

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The capacity reserve should work similar to balancing power which ought to be provided by Transmission System Operators (TSOs) and used in case that supply and demand do not match. The costs for providing the reserve when needed should be financed via the accounting grids and ultimately by accounting grid managers which did not fulfill their delivery obligations. Whether and how those costs will occur however is left unanswered.

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- In case of scarcity: Generators must be able to bid prices above their marginal costs, without any fear of market abuse proceedings (Federal Cartel Office > define clear and transparent criteria)
- Flexibility of both generation capacities and demand needs to be unlocked by price signals. The acceptance in particular of high and volatile prices is therefore essential
- Coordination of the power market 2.0 with neighbouring European countries > national security of supply can be achieved more easily for each member state in a European context
- Maintenance of large and liquid bidding zones in Europe rather than a split-up of established bidding zones (for example Germany/Austria, France)
- Full integration of RES in the market via two measures: 1) Auction-based determination of feed-in tariffs 2) fixed feed-in tariffs per kW of installed capacity instead of floating tariffs per

generated kWh

The increase in Renewable Energies and existing over capacities with conventional power plants led to declining prices at the exchanges and to increasing missing cost coverage with producers. As a result the further operation of some conventional power plants as well as investments in new and flexible generation plants to supply secure capacity has been questioned.

This development is not the reflection of a malfunctioning market design, but foremost the result of structural changes within the electricity system. These changes can be met with an optimized Energy Only Market 2.0 without the necessity to alter the energy market fundamentally or introduce capacity mechanisms.

The Green Paper by the German Federal Ministry for Economic Affairs and Energy outlines several options to optimize the existing Energy Only Market. A key element of the so called Energy Only Market 2.0 is the development of flexibility, in order to be able to balance out the fluctuating generation of Renewable Energies.

To achieve this EEX and EPEX SPOT will develop matching flexibility products – for example derivatives' products for the marketing of flexibility.

29 Will the planned mechanism(s) trigger additional investment in any of the following types of capacity beyond what could be expected without the mechanism(s) (multiple answers possible)?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Generation capacity

Storage capacity

Demand response

Interconnection capacity

30 Do you believe that the planned capacity mechanism(s) will be cost-effective in reaching its objective, namely achieving generation adequacy?

Reply:

Yes

No

30.1 Please explain your answer.

Reply:

The Energy-Only market ensures security of supply cost-effectively, since, speaking in economic terms, the first-best-solution is achieved. The decentral capacity market can induce a second-best solution, since it effectively establishes competition between the different generation technologies and demand side response.

31 Do you believe that the proposed eligibility criteria for participation to the capacity mechanism(s) are fair and non-discriminatory?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

31.1 Please explain your answer.

Reply:

We cannot answer this question as there are currently no capacity mechanisms planned in Germany.

32 Do you believe that sufficient competition will be ensured in the planned capacity mechanism(s), e.g. through the inclusion of different types of capacity providers in any competitive bidding process or market for capacity?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

32.1 Please explain your answer.

Reply:

We cannot answer this question as there are currently no capacity mechanisms planned in Germany.

33 Do you believe that the proposed contractual obligations (e.g. availability / delivery at times of system stress, period of availability etc.) for capacity providers under the mechanism(s) are reasonable?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

33.1 Please explain your answer.

Reply:

We cannot answer this question as there are currently no capacity mechanisms planned in Germany.

34 Do you believe that the proposed duration of contracts for capacity providers under

the mechanism(s) strikes the right balance between enabling investment decisions and providing value for money to consumers?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

34.1 Please explain your answer.

Reply:

We cannot answer this question as there are currently no capacity mechanisms planned in Germany.

35 Do you believe that the remuneration offered to capacity providers participating to the capacity mechanism(s) will be appropriate, including the proposed mechanism for determining the remuneration?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

35.1 Please explain your answer.

Reply:

We cannot answer this question as there are currently no capacity mechanisms planned in Germany.

36 Do you believe that the proposed lead time (period between conclusion of the contractual obligation / relationship and the actual delivery / availability period) under the capacity mechanism(s) is appropriate?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

36.1 Please explain your answer.

Reply:

We cannot answer this question as there are currently no capacity mechanisms planned in Germany.

37 Do you believe that the planned capacity mechanism(s) will lead to distortions of competition between market participants?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

37.1 If you answered "Yes", please indicate which of the following features of the planned capacity mechanism(s) will lead to the distortion of competition you have identified (multiple answers possible).

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

The criteria to select capacity providers eligible to participate

Different treatment of new and/or existing capacity providers

Different treatment of different technologies

Different duration of contracts for different capacity providers

Allocation mechanism

Other

37.1.1 Please explain your answer.

Reply:

We cannot answer this question as there are currently no capacity mechanisms planned in Germany.

38 Do you believe that the planned capacity mechanism(s) risk(s) negatively affecting intra-EU trade or fragmenting the Internal Market in electricity?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

38.1 Please explain your answer.

Reply:

EEX is committed to free, competitive, monitored and transparent markets. The guiding principle for a European approach is an effective, connected and transparent European Internal Energy Market for Power and Gas which ensures a secure and sustainable energy supply for as little costs as possible.

An Energy Only Market 2.0 in which flexibility is provided market based and stimulated, in which renewable energies are fully integrated and that is embedded into the European internal energy market. This leads to the supply of assured capacities to cover the residual load and further safeguards the volatile feed in of renewables.

We are not convinced that a capacity mechanism will be required in Germany for the foreseeable future. And, in view of the complexity and of the unresolved problems of all the models, we advise against the introduction of such a mechanism.

39 Do you believe that the planned capacity mechanism(s) should be amended / improved?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

39.1 Please explain your answer.

Reply:

We cannot answer this question as there are currently no capacity mechanisms planned in Germany.

40 Is there anything else you want to add concerning the planned capacity mechanism(s) in the Member State of reference (separate documents can be uploaded at the very end of this Questionnaire)?

Reply:

Please look at Question 25 and our indicated answer.

V. DEMAND RESPONSE AND STORAGE

41 Which of the following is true for the role of final consumer in the energy market in the Member State of reference (multiple answers possible)?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Final consumers face short-term (i.e. day-ahead and intraday) price signals

Final consumers participate directly in the wholesale market

[] Final consumers participate in the wholesale market via aggregators

41.1 Please explain your answer.

Reply:

(Not provided)

42 If possible, please provide an estimate of the maximum potential (in MW) for consumers to reduce demand flexibly in response to a short-term (e.g. 4-hour) spike in wholesale prices.

Reply:

(Not provided)

43 Are there any initiatives in the Member State of reference to promote the development of demand response other than through (a) capacity mechanism(s)?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

() Yes

() No

43.1 If yes, please briefly describe these initiatives.

Reply:

(Not provided)

44 Should the Member State of reference promote the development of demand response other than through (a) capacity mechanism(s)?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

() Yes

() No

44.1 Please explain your answer.

Reply:

(Not provided)

45 Are there any initiatives in the Member State of reference to promote the development of storage capacity other than through (a) capacity mechanism(s)?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

45.1 If yes, please briefly describe these initiatives.

Reply:

(Not provided)

46 Should the Member State of reference promote the development of storage capacity other than through (a) capacity mechanism(s)?

Confidential Reply:

(Not provided)

Non Confidential Reply:

(Not provided)

Yes

No

46.1 Please explain your answer.

Reply:

(Not provided)

47 Is there anything else you want to add concerning demand response or storage in the Member State of reference (separate documents can be uploaded at the very end of this Questionnaire)?

Reply:

(Not provided)

VI. EU MARKET DESIGN

48 Do you believe that the EU should develop a harmonised methodology for determining generation adequacy?

Reply:

Yes

No

48.1 Please explain your answer.

Reply:

EEX is committed to free, competitive, monitored and transparent markets. The guiding principle for a European approach is an effective, connected and transparent European Internal Energy Market for Power and Gas which ensures a secure and sustainable energy supply for as little costs as possible.

Germany is through different market coupling projects closely connected with a number of its neighbouring countries. The Europeanization of markets has already come a long way and exchanges have played a leading role. Meanwhile there are 19 countries coupled through market coupling. Most recently in February 2015 Italy and Slovakia have been coupled with the already connected regions in North-Western Europe (NWE) and South-Western-Europe (SWE). As a result the now-coupled area accumulates to 85% of European power consumption.

This exemplifies that the further development of the energy market has to be thought on a European scale rather than nationally. A fully connected European market offers advantages not only regarding security of supply but also with the market integration of Renewable Energies, because it leads to a wide ranging levelling/balancing of generation and consumption at a much lower cost.

Capacity adequacy and the need for capacity mechanisms have to be analyzed in the broader context of a European market. Hence, in order to access the need for and the expected impact capacity mechanisms might have on other countries, one should take the broader market context into account, foremost interconnectivity and market integration, demand side participation. Even though the generation mix of energy may vary from country to country significant development trends and characteristics are shared across Europe, as explained briefly regarding the coupled areas. The overall aim of the Internal Energy Market (IEM) is to make sure that the EU possess "an internal energy market that is competitive, integrated and fluid."

More efficient utilization of cross-border transmission capacity and increased TSO cooperation on balancing and reserve provision improves security of supply by making resources available for larger areas. Another important factor is the expansion and strengthening of the European transmission grid that has to be adapted to the new market situation in a changing environment. Contributing to this is the transition to a low-carbon power system. The use of fossil fuelled generation has to be further reduced according to the Energy Road Map 2050. This is closely linked to the further integration of Renewables into an energy market in transition.

49 Should rules be developed at EU level to limit as much as possible any distortive impact of capacity remuneration mechanisms on cross-national integration of energy markets?

Reply:

Yes

No

49.1 If yes, do you have any suggestions for how rules at EU level could best be developed to address this issue?

Reply:

Each European Union Member State has to consider carefully whether capacity markets are needed or not.

- In Member States with mature energy markets, Energy Only Market is the preferred solution to address the flexibility challenge and ensure security of supply. Market-based reference price signals shall be the basis of decision making for market participants

- In Member States where this proves inapplicable or insufficient to counter acute challenges to the security of supply, complementary capacity mechanisms shall support the completion of the Energy Only Market

Such capacity mechanisms shall comply with the overall goal of an integrated European internal market for electricity i.e. be market-based, non-discriminatory and coordinated across borders.

50 Is there anything else you want to add concerning demand response or storage in the Member State of reference (separate documents can be uploaded at the very end of this Questionnaire)?

Reply:

No.

VII. CONFIDENTIALITY

51 Please note that all responses will be treated as non-confidential unless you explicitly indicate otherwise. This means they may be published on the Europa website and your responses and opinions cited in the Commission's sector inquiry report. If you do not agree to your responses (or specific parts of them) being used in this way, please identify your confidential answers in the box below and, for each question thus identified, provide a non-confidential reply that can serve the aforementioned purposes.

Reply:

We agree to our position being published on the Europe website for information purposes.

Attachment

20150210_Working-Paper_Energy Turnaround Products.pdf (uploaded 17/06/2015 18:48)