

## Polish Electricity Association talks in Paris about the experiences of the functioning of the capacity markets in the European Union

Dozens of experts took part in the Euractiv debate in Paris co organised by the PKEE. This was already the second international discussion on the European electricity market. The series of events organised in countries with functioning capacity markets commenced with a Tuesday debate in Madrid. The expert debates are intended to contribute to the negotiation process on the regulation of the Union's electricity market that should be completed during the Austrian Presidency in the second half of 2018.

Currently, the European electricity market is grappling with structural problems with the security of electricity supply, resulting from capacity scarcity and constraints of financing of new investments. Capacity markets, if well designed, may provide an effective response to these problems while at the same time supporting the market reforms and the energy transition.

During the Euractiv workshops in Paris, Fabien Roques, Vice President of Compass Lexecon, one of the most experienced consultants analysing the EU capacity markets, argued that the introduction of this mechanism in Poland is the most economically justified way of assuring its security of supply. He also has added that the CO<sub>2</sub> emissions reduction should be achieved using a single tool, namely the EU ETS. Thus the introduction of an additional emissions reduction tool with the EPS 550 emission standard in the market regulation increases the costs and has no economic justification.

PKEE has pointed out that the Polish capacity market approved this February by the European Commission is fully compliant with the rules for providing the State aid in the EU. Maciej Burny, Secretary of the PKEE, has reminded in Paris that the European Council's Directorate General for Competition has after a detailed analysis concluded that the capacity market is the appropriate option for solving the structural problem of assuring the security of electricity supply in Poland. The Commission's decision also concerned five other Member States ***"The capacity market in Poland is necessary to provide incentives for new investments required for the security of supply, as the energy market alone will not assure this."*** Maciej Burny also pointed out the danger of retroactivity of the new regulations, therefore, as he stressed: ***"the auctions' participants are expecting that the contracts concluded before the date of entry into force of the new Regulation will be protected under the acquired rights principle – just like in the case of the just agreed revision of the RES Directive, which fully respects the***

*acquired rights of the investments in the renewable sources. We need the same predictability of the regulatory environment for the conventional sources that are necessary in the power system to maintain its stability.”*

Participants in the debate have also pointed to the fact that the capacity mechanisms, meaning both the capacity markets and the strategic reserves in the EU, should be open to participants from other countries. The regional perspective postulated by the Commission may bring in a significant added value. In case of the resource adequacy assessments, which allow evaluation of the capacity resources and determine the level of risk of threat to the security – and on this basis to take decisions on the introduction of the capacity mechanisms, this responsibility should, however, remain at the national levels. They stressed that the responsibility for guaranteeing the security of supply rests with the Member States concerned and their domestic authorities, so the European resource adequacy assessment should supplement the domestic assessments that should continue in their key role.

Among the discussed topics that will be significantly impacting the future of the capacity mechanisms in the EU was the issue of the CO<sub>2</sub> emission standard (the EPS550). So far some of the EU Member States have implemented the capacity markets and some the strategic reserves – according to the EU competition policy, these are capacity mechanisms, so as raised by the representative of the PKEE they should be treated equally. *“The European Parliament in its proposal postulates exemption of strategic reserves from the EPS550 requirements, and this means introducing a double standard. We expect that the new regulations will not in practice be favouring some Member States at the expense of the others”* – pointed out the PKEE Secretary Maciej Burny.

PKEE points out that the capacity markets effectively aid in maintaining the security of electricity supply in countries being home to over 50 percent of the population of the European Union. *“Poland’s capacity market is one of the several similar ones implemented – in France, Great Britain, Ireland, Spain, and soon to be launched in Italy”* – noted Paweł Wróbel, Director of the Brussels Office of the PKEE.

Already next Thursday the third of the European debates on the capacity market co organised by the PKEE will take place in Rome. The series of meetings will be completed in July with the Euractiv conference currently under preparation in Brussels.