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Subject: State Aid SA. 54915 (2019/N) Belgium Capacity remuneration mechanism

Dear Mr. Pesaresi,

The Union of the Electricity Industry - Eurelectric is the sector association which represents the common interests of the electricity industry at pan-European level, plus its affiliates and associates on several other continents. We currently have over 34 full members, representing the electricity industry in 32 European countries.

Eurelectric is concerned by a specific element in DG COMP's opening decision regarding the capacity remuneration mechanism notified by Belgium.

Concretely, in Recitals (237)-(241) of this opening decision, DG COMP is questioning the compliance of the national resource adequacy assessment provided by Belgium with Article 24(1) of the Electricity Regulation 2019/943 (hereafter 'the Regulation'). According to DG COMP, the issue is that the underlying considered scenario is "*based on assumptions about foreign electricity supply*".

Eurelectric would like to highlight that:

- According to Article 24(1) of the Regulation:
 - "**National resource adequacy assessments shall have a regional scope and shall be based on the methodology referred in Article 23(3) in particular in points (b) to (m) of Article 23(5)**";
 - "**National resource adequacy assessments may take into account additional sensitivities to those referred in point (b) of Article 23(5)**";
 - In such cases, **they may "use tools and consistent recent data that are complementary to those used by the ENTSO for Electricity for the European resource adequacy assessment"**.
- **The methodology for European Resource Adequacy Assessments** referred in Article 23(3) of the Regulation (see ACER Decision No 24/2020 of 2/10/2020, Annex I) **confirms that National Resource Adequacy Assessments have a regional scope and may include additional sensitivities. It does not specify nor restrict the nature of these additional sensitivities.** As mentioned in Article 3(6) of the said methodology, these sensitivities can cover a wide range of changes in assumptions over the whole geographical scope considered – including different assumptions related to input data like installed capacities.
- As mentioned in the Sector Inquiry on Capacity Mechanisms published in 2016 (see SWD(2016) 385 final, Box A2.1, page 186), "*the extent to which an interconnector can reliably provide imports to the countries it connects depends not just on the line's technical availability but also on the potential for concurrent scarcity in the connected markets.*". In other words, **the level of imports**

(or exports) during stress events for a given country also depends on whether the level of foreign electricity supply is able to cope with the demand in the connected markets. This is exactly one of the key reasons for national resource adequacy assessments to have a regional scope.

Eurelectric believes that DG COMP applies a far too restrictive reading of Article 24(1) in the opening decision on the Belgian Capacity remuneration mechanism. If such a reading is maintained in the final decision, it could create a precedent that would be detrimental to the overall framework on resource adequacy set up in the Regulation.

- First, Article 24(1) does not forbid to consider in National Resource Adequacy Assessments regional sensitivities in order to study and quantify their impacts on local variables (e.g. import/export during stress events).
- Second, the regional scope of National Resource Adequacy Assessments implies to assess expected interactions (represented by electricity flows) between interconnected countries during system stress. Such assessments require (changes in) assumptions over the whole modelled region in order to get a sound and relevant analysis.
- Third, Eurelectric would like to stress that several risk factors have a regional scope and – given the electricity market integration and the use of interconnections – have local impacts on the supply-demand balance. Beyond the actual availability of nuclear in France (as retained by the Belgian authorities), one could also consider the impact of stricter decarbonization targets by 2030 (e.g. accelerated phase-out of coal/lignite capacity), the time lag in implementing certain provisions of the Regulation (e.g. 70% minimum remaining available margin requirement for cross-zonal trade), the uncertainty around the actual development of RES generation, etc.

As a consequence, Eurelectric argues that National Resource Adequacy Assessments should be fully allowed to make documented assumptions on *inter alia* foreign electricity supply as part of their assessment. The issue that Eurelectric is raising is not theoretical: not allowing national TSOs to make such regional assumptions could lead to substantial security of supply risks and thus have concrete impacts for several Member States. For instance and regarding the case of Belgium, this interpretation by DG COMP of Article 24(1) ignores the foreign risk factors underlying the uncertain contribution of imports to the equilibrium of the Belgian electricity system. This could lead to a substantial security of supply risk if the proposed Belgian capacity market fails to attract sufficient adequacy means as a consequence.

Regarding the design elements of the proposed capacity remuneration mechanism and the other observation raised by DG COMP, Eurelectric reiterates its position that

- (i) well-designed capacity mechanisms should ensure that the firm capacity needed (generation, storage, demand response) for security of supply is maintained or invested in and
- (ii) they should be market-based (e.g. valuing availability of capacity), technology neutral (open to generation, demand response and storage), open to existing and new assets, as well as open to cross-border participation.

These high-level principles are broadly in line with the design principles for capacity mechanisms mentioned in Article 22 of the Regulation.

We remain of course available to discuss in more details our concern regarding your interpretation of Article 24(1) of the Regulation.

Yours sincerely,



Kristian Ruby
Secretary General

c.c.

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