



State aid: interim report of sector inquiry on electricity capacity mechanisms shows significant shortcomings

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The Commission inquiry on capacity mechanisms shows they can increase security of electricity supply but many Member States must be more thorough assessing whether they are necessary and in their design to ensure they are targeted and cost-effective.

Unnecessary and badly designed capacity mechanisms can distort competition, hinder electricity flows across borders and lead to consumers overpaying for electricity. The Commission now invites Member States, stakeholders in the electricity sector and others to submit comments on its initial findings.

Commissioner Margrethe **Vestager**, in charge of competition policy, said: "*European consumers and companies should not have to face black-outs, and capacity mechanisms can help to reduce this risk. At the same time, consumers should not overpay for electricity and competition should not be undermined. The report published today shows that there is a lot of room for Member States to improve how they assess whether capacity mechanisms are needed, and how they design them. For a capacity mechanism to be well-designed it needs to be open and take into account electricity that can be provided across EU borders, thereby also contributing to building an Energy Union in Europe.*"

In [April 2015](#), the Commission launched a state aid sector inquiry into national measures to ensure that adequate capacity to produce electricity is available at all times to ensure a reliable electricity supply (so-called "capacity mechanisms"). The purpose of the inquiry is to gather information on capacity mechanisms to examine, in particular, whether they ensure sufficient electricity supply without distorting competition or trade in the EU Single Market. It complements the [Commission's Energy Union Strategy](#) to create a connected, integrated and secure energy market in Europe.

Over the past year the Commission has collected a large amount of information from over 120 market participants and public bodies on past, existing and planned capacity mechanisms in 11 Member States - Belgium, Croatia, Denmark, France, Germany, Ireland, Italy, Poland, Portugal, Spain and Sweden. The Commission found 28 capacity mechanisms which can be categorised in six different types. The most common type is a strategic reserve, by which the State pays specific power plants to become operational in case of need. Recent initiatives by Member States suggest there is a general trend towards more open and inclusive mechanisms, which are in principle open to participation from all categories of capacity providers. This is a positive development: to create a true Energy Union and ensure costs for consumers and companies are kept to a minimum, capacity mechanisms should be open to all types of providers, domestic or foreign, regardless of technology.

However, today's interim report also points to a lack of proper and consistent analysis by many Member States of the actual need for capacity mechanisms. It also appears that some capacity mechanisms in place could be better targeted and more cost effective. These findings do not prejudice the Commission's assessment of the compatibility with EU state aid rules of any individual capacity mechanism, which requires a case-by-case analysis.

Capacity mechanisms may be necessary...

A number of EU Member States have voiced concerns that electricity supplies may be unable to meet demand as a result of insufficient investment due to market uncertainties and regulatory interventions. An additional issue is that demand needs to be fully met by supply also in times when there is a shortfall from variable renewable energy sources (e.g. as a result of less wind or sun at a given time).

The preliminary results of the inquiry indicate that currently the market on its own may not maintain appropriate levels of security of supply in certain regions. This may partly be because rather low price caps are in place in several countries or investors may not believe electricity prices will rise sufficiently in times of scarcity to encourage investment in capacity. Ongoing reform plans to the current electricity market design – one of the key objectives of the EU's [Energy Union](#) – aim to significantly improve market functioning in the future. In specific cases, however, capacity mechanisms may be necessary, for instance to bridge the transitional period in which shortages may occur.

...but must address a genuine need...

The preliminary results of the Commission's inquiry show that many existing capacity mechanisms have been designed without prior assessment of whether a security of supply problem existed in the relevant market. Almost half of the Member States studied have not adequately established what should be their appropriate level of supply security before putting in place a capacity mechanism. Moreover, methods of assessing security of supply vary widely between Member States, which makes comparison and cooperation across borders difficult. Many assessments take a purely national perspective and do not take into account possible deliveries from neighbouring countries. Without a thorough and more harmonised method to identify problems and calculate risk, capacity mechanisms threaten to use public funds to finance expensive unnecessary capacity leading to higher prices for EU consumers and companies.

...and the design needs improvement

The interim report highlights substantial problems in relation to the design of capacity mechanisms in a number of Member States. First, the Commission found that many Member States did not adequately assess what would be the best way to increase the security of supply. Second, in most Member States the price paid for electricity capacity is not determined through a competitive process but set by the Member State or negotiated bilaterally between the Member State and the capacity provider. This creates a serious risk of overpayment, thereby subsidising the provider. Third, many capacity mechanisms do not allow all potential capacity providers or technologies to participate, which may unnecessarily limit competition among suppliers or raise the price paid for the capacity. Finally, the inquiry showed that power plants from other Member States are rarely allowed to directly or indirectly participate in national capacity mechanisms.

If these concerns are confirmed, such capacity mechanisms may distort competition and lead to higher electricity prices by unduly favouring particular producers or technologies, and they may create obstacles to trade in electricity across borders.

Next steps

The interim report published today is now open for public consultation. The Commission invites Member States, stakeholders in the electricity sector and others to submit comments on the interim report and the annexed staff working document by 6 July 2016. In the light of comments received, the Commission will publish a final report on the results of the sector inquiry later this year. In the meantime, the Commission continues to assess capacity mechanisms under EU State aid rules, and in particular the [2014 Guidelines on state aid for environmental protection and energy](#).

The sector inquiry also contributes to the Commission's Energy Union objectives. In particular, the results of the inquiry will feed into legislative proposals on a revised electricity market design due to be presented later this year.

See also [Factsheet](#) for further details.

The report and staff working document are available [here](#).

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