



State aid: Commission approves six electricity capacity mechanisms to ensure security of supply in Belgium, France, Germany, Greece, Italy and Poland

Brussels, 7 February 2018

The European Commission has approved under EU State aid rules electricity capacity mechanisms in Belgium, France, Germany, Greece, Italy and Poland. The Commission found that the measures will contribute to ensuring security of supply whilst preserving competition in the Single Market.

Commissioner Margrethe **Vestager**, in charge of competition policy, said: "*Capacity mechanisms can help to safeguard security of electricity supply, but they must be designed so as to avoid distortions of competition in energy markets. I am glad that our close cooperation with national authorities has enabled us to today approve well-designed capacity mechanisms in six EU countries. They will foster competition among all potential capacity providers to the benefit of consumers and our European energy market.*"

Capacity mechanisms have the important objective of ensuring security of electricity supply. But if they are not well-designed they may cause higher electricity prices for consumers, give undue advantages to certain energy operators or hinder electricity flows across EU borders. That is why the Commission has, in close cooperation with the relevant national authorities, assessed six mechanisms in Belgium, France, Germany, Greece, Italy and Poland to ensure they meet strict criteria under EU State aid rules, in particular the Commission's [2014 Guidelines on State Aid for Environmental Protection and Energy](#). In this context, the Commission has also taken into account insights from its 2016 State aid [sector inquiry](#) on capacity mechanisms. Today's decisions complement the [Commission's Energy Union Strategy](#) to deliver secure, sustainable and competitive energy in Europe.

Even if capacity mechanisms are well-designed, they cannot replace electricity market reforms at national and European levels. In parallel, important legislative work is ongoing to address market and regulatory failures, which undermine the incentive for energy operators to invest in electricity capacity and maintain security of supply. The Commission's [Clean Energy for All Europeans Package](#) of November 2016, a key proposal to meet our Paris agreement commitments, is currently being discussed by European co-legislators. This package includes a new Market Design to create the right investment incentives and to enable further development of renewables in the electricity sector. When adopted Member States will have to adapt all existing State aid measures to the future legislation.

Capacity mechanisms approved today

The six capacity mechanisms approved today concern more than half of the EU population. They cover a range of different types of mechanism that address the specific need in each Member State, namely strategic reserves, market-wide mechanisms and measures specifically promoting demand response.

Strategic reserves

In the cases of **Belgium** and **Germany**, the Commission has authorised **strategic reserves**. Strategic reserves keep certain generation capacities outside the electricity market for operation only in emergencies. They can be necessary to ensure security of electricity supply when electricity markets are undergoing transitions and reforms and are meant to insure against the risk of a severe supply crisis during such transitions.

Both Belgium and Germany have **clearly identified and quantified the security of supply risks** to be addressed by the reserves. For Belgium, the reserve is needed to mitigate the supply risks due to Belgium's high reliance on an ageing nuclear fleet, including when it comes to imported electricity. For Germany, the reserve is needed to ensure security of supply during the ongoing reform of the German electricity market and to manage the phase-out of nuclear electricity generation.

Both reserves are **temporary** and will be removed when the underlying market issue is solved. Finally, the strategic reserves are procured through **regular, competitive tenders open to all types of**

capacity providers, including demand response, to ensure effective competition and to limit costs.

On this basis, the Commission concluded that both measures are in line with EU State aid rules.

Market-wide capacity mechanisms

In the cases of **Italy** and **Poland**, the Commission has authorised **market-wide capacity mechanisms**. These can be necessary where electricity markets face structural security of supply problems. Under a market-wide capacity mechanism, capacity providers can obtain a payment for being available to generate electricity or, in the case of demand response operators, for being available to reduce their electricity consumption.

Both Italy and Poland have **clearly identified and quantified the security of supply risks**, also taking into account possible imports from neighbouring countries. Italy has demonstrated that a significant amount of capacity risks exiting the market and new investments are unlikely to take place because investors cannot earn a sufficient return from their electricity sales. Similarly, Poland has demonstrated that it is faced with market failures in the electricity market that prevent prices from incentivising power generators to keep existing capacity in the market or to invest in new capacity.

Both mechanisms in Italy and Poland are **open to all types of capacity providers**, including demand response, existing and new capacities, domestic and foreign. Furthermore, the measures will keep costs for consumers in check thanks to the **regular, competitive auctions** to allocate capacity contracts. In parallel, both Italy and Poland committed to **implementing reforms to the functioning of the electricity markets**.

On this basis, the Commission has found both measures comply with EU State aid rules. This follows the Commission approval of market-wide capacity mechanisms in [Great Britain](#), [France](#) and for the [Irish 'all-island' market](#) on the basis of the same criteria.

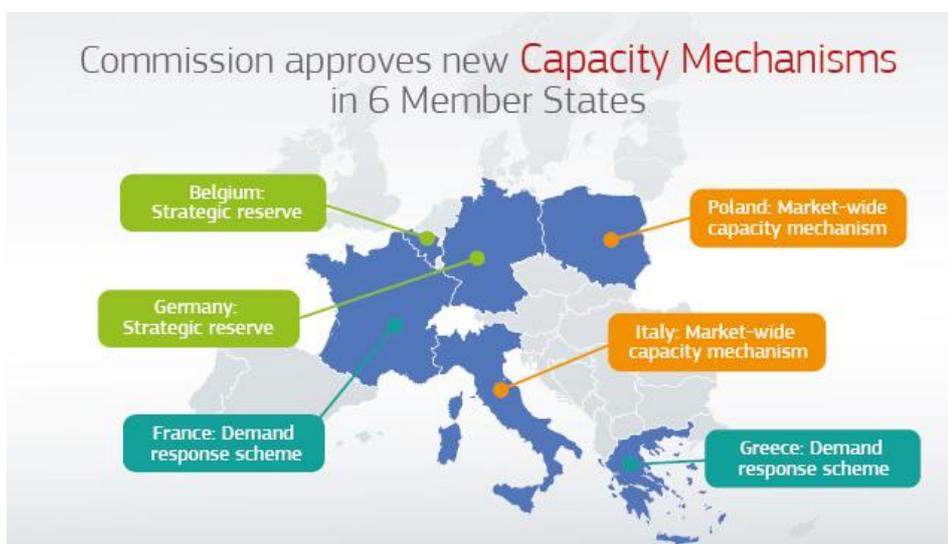
Demand response schemes

In the cases of **France** and **Greece**, the Commission has authorised capacity mechanisms specifically promoting **demand response**. Demand response schemes pay customers to reduce their electricity consumption in hours when electricity is scarce. The advantage of such schemes is that demand response operators may be able to react more quickly than electricity generators. Moreover, it is generally more environmentally friendly to reduce consumption than to produce additional electricity, and these schemes can render the construction of additional power plants unnecessary.

France has demonstrated that this scheme is necessary to further boost the demand response sector in the country, where extreme demand peaks during cold weather are likely to occur. In the case of Greece, the existing scheme played an important role in managing the tight electricity situation during cold spells in December 2016 and January 2017 and the measure may be called upon again in the near future.

Both measures are **temporary** and support will be granted through **regular, competitive tenders** to keep down costs.

On this basis, the Commission has found they comply with EU State aid rules. This follows the Commission's approval of a specific demand response support scheme in [Germany in 2016](#) on the basis of the same criteria.



Background

For more details on each of the capacity mechanisms approved today, please see [Factsheet](#).

The Commission's 2016 [sector inquiry](#) into capacity mechanisms has formed the basis for a close cooperation between the Commission and EU Member States to ensure that capacity mechanisms are well-designed and fit for purpose.

The sector inquiry [report](#) confirmed that capacity mechanisms can be necessary where market and regulatory failures block the price signals necessary to maintain appropriate levels of security of supply. However, the report made clear that EU State aid rules are important to ensure that capacity mechanisms do not act as backdoor subsidies for specific technologies or cause other undue distortions of competition, or come at too high a price for electricity consumers.

More specifically the sector inquiry outlined the need for Member States to first implement necessary market reforms before introducing capacity mechanisms, and for capacity mechanisms to:

- rely on a thorough necessity assessment going beyond national borders;
- allocate support through competitive tenders open to all types of capacity providers since this preserves competition between capacity providers and drives down costs for consumers;
- limit competition distortions by appropriate design;
- limit interference with price formation in the energy markets; and
- limit the impact on cross-border trade by allowing capacity providers in other Member States to participate.

The Commission's approval of capacity mechanisms under EU State aid rules is without prejudice to the need for these measures to comply with the future sectoral EU legislation when it becomes applicable, including the [Electricity regulation](#), which is subject to an ongoing legislative procedure (see also [COM/2016/0861 final](#)).

The non-confidential version of these decisions will be published under case number SA.48648 (Belgium), SA.45852 (Germany), SA.42011 (Italy), SA.46100 (Poland), SA.48490 (France) and SA.48780 (Greece) in the [State aid register](#) on the [Commission's competition website](#) once any confidentiality issues have been resolved. New publications of State aid decisions on the internet and in the Official Journal are listed in the [State Aid Weekly e-News](#).

IP/18/682

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