



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

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.

Please also see the [press release](#).

The Commission has today approved:

- two strategic reserves, in **Belgium** and **Germany**,
- two market-wide capacity mechanisms, in **Italy** and **Poland**, and
- a demand response tender in **France**, and an interruptibility scheme in **Greece**.

Capacity mechanisms are measures designed to ensure security of electricity supply. Typically, capacity mechanisms offer additional remuneration to electricity capacity providers, on top of income obtained by selling electricity on the market, in return for maintaining existing capacity or investing in new capacity. This additional remuneration may have an impact on competition in the internal electricity market and has to be assessed under EU State aid rules.

The capacity mechanisms approved today have been assessed on the basis of the [2014 Guidelines on State Aid for Environmental Protection and Energy](#), which set out the criteria for such mechanisms to comply with EU State aid rules. In this context, the Commission took account of insights gained from its State aid [sector inquiry](#) on capacity mechanisms concluded in 2016 and covering 11 Member States, including Belgium, France, Germany, Italy and Poland. The final report of the sector inquiry highlighted that capacity mechanisms must target a genuine security of supply need, they must be designed in such a way as to avoid competition distortions and deliver security of supply at lowest cost for consumers. Finally, the report also highlighted that capacity mechanisms should be open to providers in other Member States. This complements the [Commission's Energy Union Strategy](#) to deliver secure, sustainable and competitive energy in Europe and to meet our Paris agreement commitments.

1) Strategic reserve – Belgium

The Commission has approved Belgian plans to set up a strategic reserve to keep certain capacity outside the electricity market for operation only in emergencies. Under this measure, financial support is provided to capacity providers (both power plants and demand response operators are eligible) to offer capacity when demand is highest, such as during winter conditions. Belgium sought approval of the measure for five consecutive winters, starting with winter 2017-2018. The reserve will be contracted through a competitive process and its volume will be determined by a thorough assessment made by the Belgian transmission system operator (TSO). This will ensure that the reserve is contracted at lowest possible cost and that the participating capacity providers are not overcompensated.

Support is open to power plants that have notified their intention to close down, and to demand response operators that agree to be disconnected from the electricity grid, when there is insufficient supply to meet electricity demand.

Belgium has demonstrated the need for the measure and, after close cooperation with the Commission, modified its plans to ensure compliance with the [2014 Guidelines on State Aid for Environmental Protection and Energy](#).

In particular:

- Support is provided to address a **clearly identified and quantified security of supply risk**:
 - o Belgium has demonstrated that the Belgian electricity market does not deliver adequate electricity supplies should certain events occur, which are unlikely but would have high impact. For example, during winter 2016/2017 the unexpected outage of one Belgian nuclear power plant coincided with the outages of nine nuclear reactors in France, leading to a very tight situation in the electricity market.
 - o The volume to be contracted every year is defined on the basis of an annual assessment performed by the Belgian Transmission System Operator. This means that the volume procured every winter will take into account market developments. For example, the size of the reserve for winter 2017/2018 was reduced compared to Belgium's initial plans to reflect the decision of some power plants to return to the market.
- The capacity mechanism is open to all types of **potential capacity providers** to ensure competition, i.e. to both power plants and demand response operators.
- Costs to electricity consumers are kept down by **regular, competitive auctions**. In particular, the volume will be procured by the Transmission System Operator by means of a competitive tender, after having been mandated by the Belgian government.
- **Potential distortions to competition are limited**: The contracts under the strategic reserve will have one-year duration and thus are aligned with the frequency of security of supply assessments, performed by the Transmission System Operator TSO on an annual basis.
- The strategic reserve will be used only after all market-based solutions to the scarcity problem are fully exhausted. In addition, restrictions on the possibility to return to the market will be applied to power plants that have participated in the reserve. This will ensure that the reserve does not distort the functioning of the market.

For these reasons, the Commission has found that the capacity mechanism complies with EU State aid rules.

The non-confidential version of the decision will be published under case number SA.48648 in the [State aid register](#) on the [Commission's competition website](#) once any confidentiality issues have been resolved.

2) Capacity reserve – Germany

The Commission has approved German plans to introduce a capacity reserve measure (or 'Kapazitätsreserve'), which mandates German network operators to procure up to 2 Gigawatt of capacity that will be held in reserve outside the market. The reserve is set to start in October 2019 and will cover three consecutive periods of two years, lasting until 2025.

The Commission opened an in-depth investigation in [April 2017](#). During the investigation, Germany has demonstrated the need for the measure and committed to adapt the design of the reserve to ensure it complies with EU State aid rules, in particular the [2014 Guidelines on State Aid for Environmental Protection and Energy](#):

- Support is provided to address a **clearly identified and quantified security of supply risk**:
 - o Germany does not expect structural capacity shortages in the future, but the capacity reserve aims to safeguard against extreme and unforeseen developments during the ongoing reform of the German electricity market ('Energiewende') and to manage the phase-out of nuclear electricity generation.
 - o The volume to be contracted every two years is defined on the basis of an assessment performed by the German Transmission System Operators (also every two years). This means that the volume procured will take into account market developments. During the in-depth investigation, Germany committed to modify how the need for and the size of the capacity reserve are calculated to better reflect market realities. The maximum size of the reserve is in any event limited to 2 Gigawatt.
- The capacity mechanism is open to **different potential capacity providers** to ensure competition, i.e. to both power plants and demand response operators. During the Commission's in-depth investigation Germany agreed to modify the terms under which demand response operators can participate in the capacity reserve, in order to allow them to compete on equal footing with generation units.
- Costs to electricity consumers are kept down by **regular, competitive tenders**: The network operators will procure the necessary capacity in competitive bidding processes taking place every second year. They are then allowed to recover the remuneration granted to beneficiaries of the reserve through network tariffs.

- **Potential distortions to competition are limited:** The strategic reserve will be used only after all market-based solutions to the scarcity problem are fully exhausted. In addition, power plants will not be allowed to return to the market once they have participated in the reserve. This will ensure that the reserve does not distort the functioning of the market.

Today's decision follows recent Commission decisions on other German measures relating to the security of electricity supply. Notably, the Commission approved a demand response scheme in [October 2016](#) and a network reserve for Southern Germany in [December 2016](#).

The non-confidential version of the decision will be published under case number SA.45852 in the [State aid register](#) on the [Commission's competition website](#) once any confidentiality issues have been resolved.

3) Market-wide capacity mechanism – Italy

The Commission has approved Italian plans to introduce a market-wide capacity mechanism, which aims at ensuring security of electricity supply in Italy. The capacity mechanism has been approved for a period of ten years, during which Italy will also implement market reforms to address the structural supply risks in the electricity market.

Under the measure, capacity providers can obtain a financial compensation for being available to generate electricity or, in the case of demand response operators, for being available to reduce their electricity consumption.

Italy has demonstrated the need for the capacity mechanism and, after close cooperation with the Commission, has made several modifications to ensure its compatibility with EU State aid rules, in particular the [2014 Guidelines on State Aid for Environmental Protection and Energy](#). In particular:

- Support is provided to address a **clearly identified and quantified security of supply risk:**
 - o Italy has demonstrated that expected revenues from electricity sales are unlikely to cover the costs of a sufficiently large volume of electricity generation capacity. More and more capacity therefore risks exiting the market and new investments are unlikely to take place. In 2017, for example, power plant owners announced their intention to stop operating 6 Gigawatt of thermal capacity.
 - The capacity mechanism will be accompanied by **market reforms:**
 - o Italy is planning to upgrade the domestic transmission network, invest in cross-border transmission capacity, and carry out a number of market reforms that will enable electricity markets to send clearer investment signals. However, these reforms do not appear sufficient to ensure the desired level of security of supply in the short term, meaning the capacity mechanism is necessary for the time being.
 - The capacity mechanism is **open to all potential capacity providers** and costs to electricity consumers are limited by **regular, competitive auctions:**
 - o The capacity providers will be selected on the basis of regular auctions open to new and existing generators (including renewable generators, demand response operators and storage). Electricity imports are also taken into account, by allowing capacity providers located in neighbouring EU Member States to compete for a certain amount of capacity, thus contributing to the integration of the internal energy market.
 - o The openness of the mechanism ensures competition between different technologies. This guarantees that capacity is procured at the lowest cost for consumers and distortions in the electricity market are avoided.

The Italian mechanism also has a special feature to ensure its effectiveness: when electricity prices reach a certain level, it triggers an obligation for power plants selected in the auctions to pay back some of the State aid. They can finance this payback obligation from revenues they generate from the sale of electricity. The capacity mechanism therefore not only ensures that capacity is available, it also gives power plants an incentive to use this capacity to offer their electricity on the market when there is scarcity.

For these reasons, the Commission has found that the capacity mechanism complies with EU State aid rules. Similar mechanisms were previously approved for [Great Britain](#), [France](#) and the [Irish 'all-island' market](#), and for Poland today.

The non-confidential version of the decision will be published under case number SA.42011 in the [State aid register](#) on the [Commission's competition website](#) once any confidentiality issues have been resolved.

4) Market-wide capacity mechanism – Poland

Poland has plans to introduce a market-wide capacity mechanism, which aims at ensuring security of electricity supply in Poland. The capacity mechanism has been approved for a period of ten years, during which Poland will also implement market reforms to address the structural supply risks in the electricity market.

Under the measure, 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.

Poland has demonstrated the need for the capacity mechanism and, after close cooperation with the Commission, has made several commitments to ensure the compatibility of the measure with EU State aid rules, in particular the [2014 Guidelines on State Aid for Environmental Protection and Energy](#). In particular:

- Support is provided to address a **clearly identified and quantified security of supply risk**:
 - o Poland introduced the measure in order to mitigate the security of supply problems it identified for the coming years, in particular for the period after 2020. These are caused by market failures in the electricity market that prevent prices from creating sufficient incentives to invest in new capacity or to keep existing capacity in the market. The Polish authorities have demonstrated that, without State intervention, this trend could create a risk of blackouts in the near future.
 - The capacity mechanism will be accompanied by **market reforms**, in particular an increase in price caps, a revision of the rules for the procurement of reserves and balancing energy as well as the introduction of an administrative pricing mechanism to reinforce the price signals during times of scarcity.
 - The capacity mechanism is open to **all potential capacity providers** and costs to electricity consumers are limited by **regular, competitive auctions**:
 - o The capacity providers are selected on the basis of competitive auctions, organised on a regular basis and open to new and existing generators, including renewables generators, demand response and storage. Electricity imports are also taken into account, by allowing capacity providers located in neighbouring EU Member States to compete for a certain amount of capacity, thus contributing to the integration of the internal energy market.
 - o Additional incentives are built in for demand response and low emission technologies, as a way to incentivise a progressive transition towards a more environmentally friendly energy mix.
 - o The openness of the mechanism ensures competition between different technologies. This guarantees that capacity is procured at the lowest cost for consumers and distortions in the electricity market are avoided.

On this basis, the Commission has found that the capacity mechanism complies with EU State aid rules. Similar mechanisms were previously approved for [Great Britain](#), [France](#) and the [Irish 'all-island' market](#), and for Italy today.

The non-confidential version of the decision will be published under case number SA.46100 in the [State aid register](#) on the [Commission's competition website](#) once any confidentiality issues have been resolved.

5) Demand response scheme – France

The Commission has approved French plans to introduce a scheme aimed at supporting the development of demand response in France by means of annual tenders. Demand response means that consumers temporarily reduce part or all of their electricity consumption. It can contribute to security of electricity supply, especially during consumption peaks in winter, while being more environmentally friendly than building new conventional plants. Under the French measure, both industrial and residential demand response operators are eligible to participate in the tenders.

The measure will be in place between 2018 and 2023. It will support the development of the French demand response sector by giving electricity consumers temporary financial support in exchange for participating in the electricity market. The measure complements the market-wide capacity mechanism in France approved by the Commission in [November 2016](#).

France has demonstrated that the measure is necessary to boost the demand response sector in the country, where extreme demand peaks during cold weather are likely to occur. The demand response sector in France is still facing learning costs, which might prevent its development despite the economic and environmental benefits it can bring.

Several features of the measure ensure its proportionality and keep down electricity costs, such as pre-defined limits to the remuneration and excluding the most expensive offers, if the auction is not sufficiently competitive. The French authorities also committed to limiting the support for the most polluting type of demand response operators, such as those using "behind the meter" diesel generators.

On this basis, the Commission has found that the capacity mechanism complies with EU State aid rules, and in particular with the 2014 Energy and Environmental Aid Guidelines.

The non-confidential version of the decision will be published under case number SA. 48490 in the [State aid register](#) on the [Commission's competition website](#) once any confidentiality issues have been resolved.

6) Interruptibility scheme – Greece

The Commission has approved amendments to and the prolongation for two years of an existing interruptibility scheme in Greece, which aims at ensuring security of electricity supply. Under the scheme, electricity users agree to reduce their electricity consumption at short notice in exchange for a fixed payment. This can be necessary for instance at times of difficult weather conditions when electricity demand may exceed supply.

The Commission had approved the [original scheme in 2014](#) for a period of three years. The scheme has proven its value during the tight supply situations in December 2016 and January 2017, when electricity cuts were avoided thanks to the reduction of the consumption of the participants in the scheme. Greece has also committed to in parallel implement **reforms in the electricity market** which aim at remedying the underlying regulatory failures.

The Greek network operator, ADMIE, will organise tenders every three months to procure a maximum of 1,600 megawatts of interruptible capacity. Compared to the previous scheme, Greece has introduced certain changes that will lead to a **more targeted and more competitive procurement** of the capacity, reducing costs to Greek consumers. In particular, Greece has lowered the overall size of the scheme, the minimum size of individual bids as well as the maximum allowed bid price. Moreover, Greece has reduced the reaction time for all participants to 5 minutes, giving the network operator the possibility to react even more quickly to unexpected scarcity situations.

On this basis, the Commission concluded that the scheme complies with EU State aid rules, and in particular with the [2014 Guidelines on State Aid for Environmental Protection and Energy](#).

The non-confidential version of the decision will be published under case number SA.48780 in the [State aid register](#) on the [Commission's competition website](#) once any confidentiality issues have been resolved.

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