European Commission - Press release

State aid: Commission approves introduction of stringent emission limits in Italian capacity mechanism

Brussels, 14 June 2019

The European Commission has approved under State aid rules the introduction of stringent CO2 emission limits in the Italian capacity mechanism. The measure will contribute to ensuring security of supply and increase the level of environmental protection without unduly distorting competition in the Single Market.

In February 2018, the Commission approved a market-wide capacity mechanism in Italy under EU State aid rules. In particular, the Commission found that Italy had clearly identified and quantified the security of supply risks and that the mechanism was well designed to mitigate such risks.

Italy has not implemented the capacity mechanism so far.

Italy notified to the Commission its plans to introduce certain changes to the approved capacity mechanism. These changes will be applied to the first auction under the Italian capacity mechanism, scheduled to take place later this year.

In particular, Italy will only allow capacity providers that comply with stringent CO2 emission limits to participate in the auction. These limits are defined in the recently adopted Electricity Regulation but are not yet compulsory.

The CO2 emission limits will prevent high-emission electricity generation, such as coal-fired power plants, from participating in the Italian capacity mechanism. At the same time, Italy will apply several measures to ensure that the mechanism remains competitive in spite of the exclusion of such capacity providers. In particular, these measures aim at fostering new entry, allowing greener generation capacity and other technologies, such as demand response and storage, to gradually replace existing and more polluting power plants.

The Commission assessed the capacity mechanism, as modified by the changes proposed by Italy, under EU State aid rules. It found that the measure will continue to ensure security of supply and further increase the level of environmental protection without unduly distorting competition in the Single Market.

On this basis, the Commission concluded that the measure complies with EU State aid rules.

Background

The European Union has recently adopted a revised Electricity Regulation as part of the Clean Energy for All Europeans legislation. The Electricity Regulation contains, for the first time, provisions on capacity mechanisms, including CO2 emission limits for power plants that participate in such mechanisms. Under the regulation, which has not yet entered into force, Member States can decide to only apply those limits as of 2025.

Italy has decided to restrict the participation in its capacity mechanism of power plants not respecting the CO2 emission limits set by the new Regulation even before the Regulation enters into force and to not take advantage of the transitional period.

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.

The non-confidential version of the decision will be published in the State aid register on the Commission's competition website under case number SA.53821 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.

Press contacts:

Ricardo CARDOSO (+32 2 298 01 00)
Giulia ASTUTI (+32 2 295 53 44)

General public inquiries: Europe Direct by phone 00 800 67 89 10 11 or by email