

The European Commission expressed a strong concern about national energy subsidy schemes Wednesday — arrangements aimed at keeping some generating plants, often older and more polluting ones, on standby in case of blackouts.

The Commission is leaving the door to so-called capacity mechanisms partly open — for now. In the internal energy market consultation it released Wednesday, Brussels acknowledged that these schemes “might be warranted under certain circumstances,” but said they could be costly and distort the market.

Instead, they should be used as a last resort to address real market failures. EU-wide rules on regional, rather than national, mechanisms that do not favor certain technologies over others could be the answer, the consultation says.

“Our worst fear is that each single member develops its own scheme,” Climate Action and Energy Commissioner Miguel Arias Cañete said in a briefing.

The subsidy programs are an unintended side effect of the EU's quest for a greener, more diversified and free-flowing energy market, which has led to a massive increase in renewable but not always reliable power generated by the wind and sun.

To the Commission, capacity mechanisms raise illegal state aid flags. To member states, particularly in fossil fuel-dependent Central and Eastern Europe and the Balkans and disconnected islands such as the U.K. and Ireland, they are key to protecting their electricity supply from big demand peaks or supply dips.

Several countries have already started going it alone on support schemes, developing varied ways of making sure there's electricity on tap when renewables falter or imports are disrupted. Germany did so just weeks ago, agreeing to pay older lignite-fired power plants to go into a capacity reserve, until they are gradually shut down between now and 2020. While the U.K. secured the EU's green light for its capacity market last year, others have forged ahead without paying attention to bloc guidelines. This has raised suspicion in Brussels, prompting Competition Commissioner Margrethe Vestager to launch an investigation in April into whether capacity markets distort competition or create trade barriers. The probe is starting with 11 countries.

“[Vestager's] inquiry came as a bit of a surprise,” said Wim Vandenberghe, an energy and antitrust lawyer at Dechert LLP, noting that the Commission had already published guidelines on capacity markets in 2014, as well as approving the U.K.'s scheme.

“At the same time, I think the reason for launching it is that the EU realizes a lot of national governments are putting these capacity markets in place without always following the guidelines. They're going about it in a national way, it's a very national prerogative,” he said.

The dream of an energy union

The internal market design consultation is one of four major measures the Commission released Wednesday in its summer package, and all four are geared towards achieving the overarching goal of the energy union — de-carbonizing the EU's energy supply and breaking down national barriers.

"It is no coincidence that our proposals have been packaged together," Arias Cañete said. "Each of the four measures will help us meet our climate and energy targets for 2020 and beyond."

The internal market design paper lays out the Commission's vision for adapting the electricity market to a world in which renewables play a far bigger role, based on expectations that they will supply 50 percent of Europe's power by 2030. This requires decentralized power grids that connect large numbers of small, dispersed renewable generators such as solar and wind farms, as opposed to older grids centralized around fewer big fossil fuel plants.

Another part of the summer package is a series of proposals to significantly reform the EU's flawed Emissions Trading Scheme, which is supposed to use market mechanisms to get utilities and industries to reduce greenhouse gas emissions.

The other two parts are designed to empower consumers. Energy labeling rules will provide more useful information on the energy hunger of electronics and appliances like televisions and refrigerators. A New Deal for Consumers, which Arias Cañete described as "a plan to move from market-led consumers to consumer-led markets," is aimed at giving customers more information and choice in energy purchases.

Nationalism vs. Unionism

Commission officials have often said the hardest part in implementing the energy union is convincing member states to open their borders. Energy supply is so critical to national security that countries are often reluctant to rely on neighbors for backup.

It is this fear that drives capacity support schemes, even though some believe they fundamentally clash with the goals of both the energy union and the EU's internal market. In a market that already has an oversupply of electricity, thanks to new renewables driven by the EU's binding 2020 targets, government subsidies serve to keep the most expensive generators, namely nuclear and fossil fuel-fired plants, afloat with "artificial payments," said Luxembourg MEP Claude Turmes, the Green Party's energy spokesman.

"What should happen in the market is low power prices should lead to a gradual kicking out or phasing of the oldest, most inefficient power plants that would gradually clear the market of the overcapacity," he said. "The Commission should say a clear 'no' to capacity payments

at the national level, and there is no reason for regional capacity markets either.”
But to get rid of national capacity mechanisms, the EU would have to become a true single energy market, with electricity easily flowing wherever on the continent it is needed. As well as countries dependent on imports, it is the member states on the periphery of the continent, such as the U.K., Ireland and Malta, that are most in need of backup capacity reserves, said U.K. MEP Ian Duncan, energy spokesman for the European Conservatives and Reformists. And for them to benefit from non-national capacity markets, these countries will need more interconnectors to link the power grids of different countries.
“Capacity markets at the moment can't function without interconnections, so we need to look at how we create a capacity market that can ensure constant flow from intermittent sources of electricity,” Duncan said.
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