

The French capacity mechanism

GDF SUEZ view

Dauphine workshop on Capacity Mechanisms

March the 9th, 2015

GDF SUEZ

ÊTRE UTILE AUX HOMMES

The decentralized capacity mechanism in France

- GDF SUEZ is favourable to the setting up of the capacity mechanism that is filling a gap in the electricity market organisation
- The capacity mechanism is making all the players responsible:
 - The suppliers that are incentivized to limit their customers participation into the peak load ;
 - The capacity owners (generation, Demand Response), that will have to demonstrate their actual availability at critical demand peak times (or market tensions);
- It is a market wide mechanism that actually concerns all the assets, unless they benefit from a non-market remuneration (FIT, ARENH). The assets are incentivized to be effectively available by a risk of penalties; The suppliers risk penalties for lack of demonstrated capacities ;
- The most competitive options will define the capacity market price. As a consequence, the players will be able to determine the option they would like to implement: in the short term, one can expect a competition between some generation assets at risk of cocooning (or closing) and the development of demand response (mainly industrials but also distributed demand response);
- The adopted options for this mechanism will allow the players to be efficient in this new context, as well for the management of generation assets, Demand Response aggregation, but it will also the suppliers to adapt to this new context by updated supply contracts
- It could however take some time for adaptation ...

Capacity mechanism at the European perimeter

- From the beginning of the capacity mechanism discussions in France, GDF SUEZ has indicated its wish to integrate the European dimension into it;
- GDF SUEZ, together with other players in France has proposed a temporary organisation based on the current rules set that would allow from the first delivery year to incentivize European capacities to explicitly participate to the French mechanism.
- GDFSUEZ is favourable to an European wide capacity mechanism that is seen as a pertinent tool for the maintaining of the economic equilibrium of the assets during the energy transition and the management of the impact of the IED directive.
- A trans-European mechanism is necessary to ensure that the European wide security of supply is maintained, but also to avoid the juxtaposition of national mechanisms that would in the end result to an over-equipment of Europe (asynchronism of tensions), detrimental to the European customer;
- On the subject of cross-border capacity exchanges, GDF-SUEZ is favourable to a model based on the availability, effectively verified (no windfall profit) by RTE or the local grid operator. One key point is that the cross-border exchange of capacities does not need any explicit reservation of capacities over the interconnections.
- GDF SUEZ will contribute to WGs devoted to the elaboration of specific rules as well as the necessary adaptations to the regulation required for the consideration of cross border exchanges of capacity, requested by the Energy Minister.



The capacity mechanism at the test of time ...

- Today in France, a situation of relative overcapacity is prevailing, that could last for some time, especially if large volumes of demand response would appear in parallel to a slowly growing demand or even a decreasing one thanks to the improving energy efficiency, but:
- Some capacities could leave the market quickly : IED or economic decommissionings, temporary cocooning of units ... That could accelerate the risk of lack of capacity, requiring new investments.
- In case of a level playing field requiring for all the French players recourse to project finance for the development or renewal of their generation capacities, the uncertainty on future revenues based only on a short-term vision of future annual revenues could be deterrent, even if groups of players could join in the development of new capacities;
- Hence, following the UK example, a question could emerge: would the French mechanism need to be completed by a mechanism ensuring a longer-term firm remuneration process ?