



## State aid: Commission approves revised French market-wide capacity mechanism

Brussels, 8 November 2016

Commissioner Margrethe **Vestager**, in charge of competition policy said: "*The French capacity mechanism will be open to all capacity providers, including those located across the border, and allow new players to enter the market. This ensures that the measure is cost-effective and competitive. Today's approval ensures that electricity prices are kept in check for consumers. We have worked constructively with the French authorities to bring the planned French mechanism into line with EU state aid rules.*"

France plans to implement a national market-wide capacity mechanism where capacity obligations are traded between electricity capacity providers (e.g. power plants or demand side operators) and electricity suppliers. Under the mechanism capacity providers offer capacity when demand is highest, for example during extreme winter conditions. In return for their available electricity capacity they receive certificates. Suppliers need to purchase certificates from capacity providers in order to cover the peak demand of their customers. These certificates can either be traded bilaterally between providers and suppliers or through regularly organised public auctions.

The Commission [opened an in-depth investigation](#) into the measure in November 2015, because it had concerns that the planned capacity mechanism might favour certain companies over their competitors and hinder the entry of new players. In order to alleviate these concerns, France has agreed to modify the mechanism in the following way:

- New capacities can obtain certificates with a seven-year duration instead of the standard 1-year duration, if they are shown to be more competitive than existing capacities. The longer contract duration will give sufficient investment certainty for new projects and **facilitate the entry of new market players**. To give new projects enough time to be developed, new capacities will be contracted through an organised public auction in four years' time.
- The French capacity mechanism will also be open to capacity providers, both generators and demand response operators, located in neighbouring Member States, subject to the expected capacity of the interconnector at peak times (around 7 gigawatts in total). It is the first mechanism to explicitly **include and remunerate foreign capacities**, thereby also contributing to building an Energy Union in Europe.
- Moreover, France will introduce **a series of measures to prevent possible market manipulation**. In particular, capacity declarations of providers will be compared to historical benchmarks, to prevent providers from under-certifying their capacities to artificially drive up capacity prices. Also, large capacity providers will have to offer specified minimum amounts of certificates during the organised auctions, to increase liquidity on the capacity market.

Based on these changes, the Commission finds that the remedies proposed by the French authorities adequately address the points of concerns raised by the Commission in its opening decision. At the same time, the investigation has confirmed the positive features of the French capacity mechanism already proposed in its original design. This includes notably its openness to all potential types of capacity providers, in particular demand response operators, and its market-based character based on auctions and trading.

The Commission has therefore concluded that the French capacity mechanism complies with EU state aid rules, in particular with the Commission's Energy and Environmental State Aid Guidelines.

### Background

The capacity mechanism, which will be operational in France as of 2017, aims to ensure security of electricity supplies in view of the expected increases in electricity demand and potential closures of part of the existing French generation fleet. France has estimated that without the capacity mechanism, the uninterrupted supply of electricity could no longer be guaranteed if France faced

extreme winter conditions. The French energy regulator will review the mechanism every year under French regulation, to assess if the mechanism is still appropriate. Ongoing reform plans to the current electricity market design – one of the key objectives of the EU's [Energy Union](#) – aim to significantly improve market functioning and reduce the need for such mechanisms in the future.

Capacity mechanisms are measures designed to ensure electricity security of 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 required to guarantee the security of electricity supplies. 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 Commission [launched a state aid sector inquiry into capacity mechanisms](#) in April 2015. Its [preliminary report](#) highlighted that capacity mechanisms must target a genuine adequacy need and must be designed in such a way to deliver security of supply at least cost to consumers. In that respect, the report notably stressed that a broad participation in market-wide capacity mechanisms is key to achieve an efficient outcome and avoid competitive distortions.

The non-confidential version of the decision will be published in the [State Aid Register](#) on the [competition website](#) once any confidentiality issues have been resolved. It will be available under case number SA.39621.

IP/16/3620

Press contacts:

[Ricardo CARDOSO](#) (+32 2 298 01 00)

[Yizhou REN](#) (+32 2 299 48 89)

General public inquiries: [Europe Direct](#) by phone [00 800 67 89 10 11](#) or by [email](#)