

## Response to the reform of the French capacity mechanism consultation

Brussels, 27 March 2025

### Key messages

We remind of our general principles concerning capacity remuneration mechanisms (CRMs).

A capacity mechanism should be:

- implemented or maintained only when necessary, with a clear security of supply need assessment at European level;
- demonstrates it enhances security of supply by responding precisely to the need assessed at regional or European level;
- designed to phase out when the security of supply threat vanishes (sunset clause);
- accounts for all capacities without discrimination between new and existing facilities, including across borders;
- is market-based with a decentralised competitive process, no price regulation and allowance for capacity products trading;
- factors in price signals from all market timeframes and avoids distortion of energy prices;
- ensures the direct participation of capacity asset owners across borders who contribute to the security of supply of the area where a CRM is established;
- minimises risk of regulatory failure and of need for redesign;
- and undergoes harmonisation at European level.

### Detailed comments

*Question 1: What methodology would you propose for determining the demand curve the objective of which is to ensure compliance with the security of supply criterion at the lowest cost?*

# CONSULTATION RESPONSE



We suggest that demand be accurately represented, notably to depict whether demand matches the necessity for a capacity mechanism. We hold that a capacity mechanism should be implemented when necessary, such as when a clear security of supply need has been assessed.

A base scenario for the demand curve with all existing capacities would be more favourable compared to a European High Impact Low Probability (HiLo) scenario on capacity generation, like implemented in Belgium. We are cautious in the HiLo scenario of several elements. A conservative demand curve increases the risk of overprocurement, which should be avoided. There is also a risk of contracted capacity on multi-year contracts crowding out less expensive capacity, also to be avoided. Lastly, an inelastic demand curve could also lead to higher demand expectations.

*Question 2: What information do you think it would be necessary for RTE and/or CRE to publish on a regular basis in order to ensure transparency in determining capacity requirements, selecting peak hours, setting prices and over-the-counter exchanges?*

As an association representing energy traders, we consistently advocate for transparency in any market-based mechanism. For example, and but limited to capacity needs, selection of peak hours and publication of auction bids.

*Question 3: How will suppliers pass on the costs of the mechanism to peak-load electricity consumers? Do you think the proposed mechanism will change peak consumption patterns? What other changes do you think are needed to encourage consumers to reduce their consumption during peak periods?*

We remind that European work is ongoing with the Network Code on Demand Response and that these efforts could interact with the changes brought to the French capacity mechanism. Additionally, we are aware of measures to encourage consumer consumption reduction during peak hours, such as the CRE considerations for changing 'heures pleines/heures creuses' timings to incentivise consumer consumption reactivity.

# CONSULTATION RESPONSE

*Question 4: What do you think is the most appropriate timeframe for the levy/tax on suppliers and then the remuneration of producers, from the time of the auction to select capacity until the end of the delivery period?*

No comment.

*Question 5: Do you think that the procedures for certifying existing or new capacity (generation, storage and load shedding) are appropriate? Do you consider that there are barriers to entry for the effective participation of all capacities?*

We support open and non-discriminatory access to participation for all market participants. We encourage that the certification process be also open-access and non-discriminatory accounting for all capacities, new and existing alike.

*Question 6: Do you think that the proposed architecture allows cross-border capacities to be taken into account fairly, given their contribution to security of supply in France?*

We reiterate our support for open access and non-discriminatory participation in the capacity mechanism, including cross-border participants according to Article 26 of Regulation (EU) 2019/943. We suggest that cross-border participation should reflect the reality of the European electricity grid by including all interconnected countries with France that can contribute to its security of supply. Hence, we recommend that the borders with the United Kingdom and Switzerland to also participate in the capacity mechanism.

Clarifying the timeline for each border allowed to participate in the mechanism is necessary for market participants' visibility.

We would appreciate transparency on the TSO-TSO agreements made for the cross-border participation in the mechanism, such as when they are concluded, what are the limitations to their contribution to French security of supply, as well as justifications if some agreements are not put in place. We also enquire whether the negotiated TSO-TSO agreements will allow for explicit participation or indirect participation based only on the interconnectors.

# CONSULTATION RESPONSE

Cross-border participation should be explicitly allowed on two fundamental principles, namely:

- Effective direct participation of foreign asset owners/operators – generation, demand response, storage – in CRMs, with appropriate incentives and/or obligations on transmission system operators (TSOs), where this effective participation depends on them;
- Equal treatment of foreign and domestic capacities contributing to a CRM, with attention to the specific rights and obligations of capacity providers in the CRM and, where relevant, related to energy market functioning.

Additionally, we wonder about the lifecycle for the limits to cross-border contributions to the security of supply, whether the agreements will be reviewed within the duration of the French capacity mechanism, and if so through what process.

*Question 7: Do you think the organisation of two auctions, one and four years before delivery, with the possibility of over-the-counter transactions, is appropriate? In your opinion, does it ensure transparency in setting the price for capacity? Do you have any comments on the planned transition between the two mechanisms, which could lead to a single Y-1 auction for the winters of 2026-2027, 2027-2028 and 2028-2029?*

We encourage a market-based design for capacity remuneration mechanisms, with a decentralised competitive process, no price regulation and allowing for capacity products trading. We also note that having a flexible secondary market promotes good market dynamics.

We suggest ensuring that the capacity market auctions do not negatively impact wholesale market trading activities, such as overlapping processes.

*Question 8: Do you think that the priority given to decarbonised flexibilities is necessary to enable their development? If so, which sectors do you think should be given priority: load shedding, storage, other?*

# CONSULTATION RESPONSE



We support European initiatives to encourage the development of flexibilities in the electricity market. We caution against proposals that would artificially reward the flexibility of certain assets when flexibility is and should continue to be priced in the energy market via existing products (baseload and peak load) and new derivatives (short-activation products sold on short-term or forward markets). We advise against such practices materialising scarcity pricing.

We reiterate our position about competitive processes within capacity markets and non-discrimination, which should also be applied to flexibility assets.

We support technology neutrality and raise the question of if implemented, how flexibilities may be ranked, according to which criteria, and how hybrid projects may be valued in the scheme.

*Question 9: Do you believe that this mechanism leads to remuneration for capacity operators/installations proportionate to their contribution to security of supply?*

No comment.

*Question 10: Do you feel that multiannual contracts are sufficient to encourage investment in new investment in new production facilities? Furthermore, in your opinion, should these multiannual contracts be open to decarbonised flexibilities or capacities benefiting from other support measures (e.g. resources benefiting from additional remuneration or the feed-in tariff or, where applicable, flexibilities prioritised at the AL-1 auction, etc.)?*

We emphasise our general principles for capacity mechanisms: it should be open-access and non-discriminatory in participation, have competitive market-based processes and be technologically neutral. The development of flexible technologies should not occur in silos and avoid price distortions in energy markets.

*Question 11: According to what principles would you set the intermediate price cap so as not to impact competition on the energy markets (e.g. on the balancing market)?*

# CONSULTATION RESPONSE



Our general principles for capacity mechanisms also hold factoring in price signals from all market timeframes and avoiding distortions to energy prices.

We recommend that, if implemented, the intermediate price cap have a clear methodology and the final value be published.

*Question 12: Do you consider the availability controls envisaged, as a continuation of the current mechanism, to be satisfactory?*

We have no specific stance on the monitoring process. We would be interested to know what the simplification process for diffused RES entails.

*Question 13: What emissions criteria would you consider in the light of the objectives of security of supply and decarbonisation of the electricity mix?*

No comment.

*Question 14: Any other comments?*

We reiterate our key principles for capacity remuneration mechanisms.

They should be implemented and maintained only when necessary, following a clearly assessed security supply need at the regional or pan-European level. The capacity mechanism should demonstrate it enhances security of supply by responding precisely to the need assessed at regional or European level.

Concerning the design elements, it should be designed to phase out when the threat to the security of supply vanishes through a sunset clause. The mechanism should account for all capacities without discrimination between new and existing facilities. We encourage a capacity mechanism to be market-based – a decentralised competitive process, no price regulation, and allowing for capacity product trading. Price signals from all market timeframes should be factored in while avoiding distortions to energy prices by the capacity mechanism. We strongly support the direct participation of capacity owners across borders who contribute to the security of supply.

# CONSULTATION RESPONSE

We generally recommend that the review of the capacity mechanism minimises the risk of regulatory failure and the need for redesign while heading towards harmonisation at the European level.

Furthermore, capacity remuneration mechanisms should avoid:

- Instead of being purely based on adequacy assessments with a view to ensure the adequacy of generation, demand and storage capacities, some proposals have introduced elements that are obviously driven by an objective to **smooth out the gradual decline of phased-out generation**, mainly hard coal and lignite-fired power plants.
- Some proposals **artificially reward the flexibility of certain assets**, when flexibility, *i.e.* the ability of capacity to meet the market and system needs, is and should continue to be priced in the energy market via existing products (base vs. peak load) and new derivatives (short-activation products sold on the short-term or forward markets). Such practices obviously **prevent scarcity pricing from materialising** (*i.e.* prevent the energy market from doing its job).
- The development of **CRMs should in no way be an excuse to relinquish efforts to improve the energy market design** – this includes the integration of renewable energy into the wholesale market, liquid and efficient (cross-border) markets in all timeframes, harmonisation of balancing products and arrangements across bidding zones, and effective competition in the retail sector.
- The existence and shape of a CRM in a neighbouring market can neither be a prerequisite nor a limitation to the participation of a third-country capacity in the CRM.

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