PRESS RELEASE

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EFET recommendations on the design of the Italian capacity mechanism

EFET believes that a well-functioning pan-European electricity market is central to the sector's efficiency and security of supply.

In our view, establishing a new capacity remuneration mechanism (CRM) or maintaining an existing one should be based on a pan-European capacity adequacy assessment taking account of all capacities (generation, DSR and storage, including across borders), and an appropriate cost-benefit analysis including alternative solutions (ref. EU Regulation 2019/43 art. 20.3).

Besides, we believe that the consideration or the establishment of a CRM should never be a reason to relinquish efforts to improve the energy market design. Undistorted energy prices give an accurate signal for dispatch on the one hand, and for investment and divestment on the other hand. Accurate price signals will allow market participants to identify the need and timing for investments in peaking generation units, storage solutions and demand-side management, alongside more traditional investment in generation and transmission capacity. **Our core belief is that capacity mechanisms, if implemented, should be designed in order not to interfere with the free formation of power prices.**

The Italian CRM – based on reliability options – could affect market players bidding behavior over a strike price based on a predetermined threshold. We believe that this design feature of the Italian CRM could have consequences for the free formation of prices either in the energy markets or the adjustment and balancing service markets. We would like to recall that, in line with the recently adopted EU Regulation 2019/43 on the internal electricity market, any measures restricting free price formation from the energy-only wholesale power market should be avoided.

Thus, EFET proposes that the strike price should be set at the value of lost load (VoLL) which is compatible with the participation of all resources in the electricity markets, without exclusions.

Energy prices should be allowed to reflect the true value of scarcity during times of system stress and high demand for power; similarly, when energy is in abundance prices should be allowed to reflect the value of displacing that generation and even go negative. Only undistorted prices give an accurate signal for dispatch and for investment/divestment.