



Brussels, 25th of November 2016

To:

Mr. Jean-Claude Juncker, President of the European Commission
Mr. Maroš Šefčovič, Vice-President of the European Commission, Energy Union
Ms. Margrethe Vestager, Commissioner, Competition
Mr. Miguel Arias Cañete, Commissioner, Climate Action & Energy

Cc:

Mr. Frans Timmermans, First Vice-President, Better Regulation, Interinstitutional Relations, the Rule of Law and the Charter of Fundamental Rights
Mr. Jyrki Katainen, Vice-President of the European Commission, Jobs, Growth, Investment and Competitiveness
Mr. Carlos Moedas, Commissioner, Research, Science and Innovation
Mr. Pierre Moscovici, Commissioner, Economic and Financial Affairs, Taxation and Customs

"Capacity mechanisms need to be fully consistent with the EU's climate strategy"

Dear President, Dear Vice-President, Dear Commissioners,

As the drafting of the electricity market design reform comes to a close, we would like to focus your attention on an unresolved issue affecting the consistency of the proposal.

Any capacity interventions into EU electricity markets need to be fully consistent with the EU's 2030 climate and energy targets and the commitments made in the Paris Agreement. Today, European electricity markets are oversupplied with generating capacity. Reserve margins over peak-load are 2-3 times those necessary to meet traditional standards on reliability of supply.

Given the significant oversupply of reliable capacity in most regions of Europe – and with the aim of steering investments into new, flexible and clean technologies - the Union and its Member States should be developing an adequate strategy to manage the retirement of power generation technologies which do not help to reduce emissions nor to deliver sufficient system flexibility.

Where capacity markets have been thoroughly assessed and are deemed necessary as a last resort, any payments of public or bill-payers' money to power generators should prioritise those options that deliver important systemic and environmental benefits such as greater flexibility and/or environmental and climate sustainability.

The upcoming reform of the electricity market should introduce a transparent carbon eligibility criterion for plants wishing to benefit from capacity mechanisms. Specifically, Article 18 (6) should address not only the *amount* but also the *type* of power generation that could be supported.

Capacity should only be able to participate in capacity mechanisms if it meets a carbon eligibility criterion of 550 g CO₂/ kWh or lower. Such a standard would be in line with the current level set by the European Investment Bank when it considers investments in power projects and consistent with the Energy Union's climate, energy and competitiveness goals.

Thank you for your consideration.

Yours sincerely,

[Redacted signature]

[Redacted text]

Ivan Martin
Head of EU Affairs
Shell

[Redacted text]

[Redacted text]

[Redacted text]

[Redacted text]