CAPACITY REMUNERATION MECHANISM

THE BARRIER

Capacity Remuneration Mechanisms are still too often granted to fossil fuels energy generators

How would you define capacity remuneration mechanisms?

Capacity remuneration mechanisms (CRM) are financial incentives that EU countries can introduce to remunerate power generators and other capacity resources (e.g. energy storage systems, demand response programmes, etc.) to ensure sufficient back-up generation capacity to meet the electricity demand at any moment. In addition to the earnings of the plants in short-term energy markets, capacity remuneration mechanisms **compensate the power generators for their availability to generate electricity when needed**.

It's time to move away from fossil fuels!

For too long, **capacity mechanisms have mostly benefited gas turbines** via lucrative long-term contracts, with the goal of ensuring energy security. CRMs across Europe heavily skew towards fossil gas which have won over 80% of capacity bids in Italy, Ireland, and Belgium and nearly 95% in Germany. The invasion of Ukraine has proven that this approach is not viable. **Relying on fossil fuel imports** is actually detrimental to the EU's security of supply and **puts the EU in significant misalignment with its climate targets**.

What is the impact on energy storage?

Energy storage coupled with renewable energies is essential to secure local, affordable and renewable electricity. **Providing financial support to fossil-based energy**, sends the wrong signal to investors and **delays the deployment of energy storage solutions** needed to overcome our reliance on fossil fuels.

Energy storage technologies, standalone or coupled with renewables, can address Europe's needs for firm back-up capacity and fully replace polluting assets currently financed through CRMs for this task. In the context of the sustainable transition and energy security, it makes more sense to further cover CRMs towards renewables and energy storage.

What can be done?

The EU's approach for security of supply must be fully aligned with its climate targets. **To prioritise cleaner capacity resources**, we cannot keep giving financial rewards to power plants that pollute the most.

One way to do this is to lower the **limit on the amount of CO_2/kWh that generators participating in CRMs can produce**. Currently the EU-wide carbon cap of the Capacity Market is set at 550g of CO_2/kWh, not sufficient to exclude the most polluting assets. The Energy Storage Coalition calls, to prioritise investments in cleaner capacities that are much needed now for our security of supply.