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BRIEFING

Czech Capacity Mechanism Approved by the European Commission: ČEPS Launches the First Auctions

On 16 July 2026, the European Commission decided not to raise objections to the Czech capacity mechanism (Case SA.120741) and found it compatible with the internal market under Article 107(3)(c) of the Treaty on the Functioning of the European Union (TFEU). The mechanism is a market-wide, auction-based mechanism with a central buyer, designed to address the structural shortage of electricity generation capacity in the Czech Republic, particularly in connection with the phase-out of coal-fired generation.

On 6 August 2026, the Ministry of Industry and Trade issued a general measure of a regulatory nature introducing the capacity mechanism, and on 14 August 2026, ČEPS launched three capacity auctions on this basis: two additional auctions (for delivery from 1 November 2030 and from 1 November 2031) and one main auction (for delivery from 1 November 2032).

Key points

1. The European Commission found the Czech capacity mechanism compatible with the internal market.
2. The mechanism responds to the structural capacity shortage caused by the phase-out of coal-fired generation.
3. It is a market-wide mechanism with a central buyer (ČEPS) and capacity allocation through "pay-as-clear" auctions.
4. ČEPS launched the first auctions: two additional auctions (delivery from November 2030 and 2031) and the main auction (delivery from November 2032).
5. The estimated budget of CZK 75–150 billion is fully financed through charges paid by electricity consumers.
6. Capacity contracts will be concluded for a term of either 1 year or 15 years.

Introduction

The national legal basis for capacity mechanisms in the Czech Republic is Section 35 of the Energy Act (Act No. 458/2000 Coll.; hereinafter the "**Energy Act**"), which allows the Ministry of Industry and Trade to introduce a capacity mechanism by means of a general measure of a regulatory nature and to set the conditions for participation, duration and other parameters pursuant to Articles 21 and 22 of Regulation (EU) 2019/943. This provision was introduced by Act No. 223/2025 Coll. (the so-called "Lex Plyn"), which primarily accelerated the permitting of new gas-fired generation facilities with a capacity exceeding 100 MW by amending the Act on the Acceleration of the Construction of Strategically Important Infrastructure and, at the same time, introduced the legal basis for a capacity mechanism – unlike the LEX OZE III amendment (Act No. 87/2025 Coll.), which addressed energy storage and grid flexibility and dealt with capacity mechanisms only at a conceptual level.

The Czech capacity mechanism is now approved and operational, with the first ČEPS auctions covering deliveries from November 2030.

ČEPS is the provider of support, while the Ministry of Industry and Trade approves the parameters of the mechanism.

The Czech Republic was led to notify the mechanism on 1 April 2026 by the results of the European Resource Adequacy Assessment (ERAA) for 2024 and 2025, approved by the Agency for the Cooperation of Energy Regulators (ACER). The latest ERAA 2025 assessment identified a significant risk to the security of electricity supply. The Czech Republic also assessed the option of a strategic reserve, but concluded that, given the structural and long-term nature of the problem (the phase-out of coal-fired generation units without adequate replacement capacity), a market-wide capacity mechanism was more appropriate.

Key Parameters of the Mechanism

The mechanism is technology-neutral – electricity generators (e.g. combined-cycle gas turbine plants), storage operators (batteries, pumped-storage hydropower plants) and demand-side response providers (e.g. industrial consumers willing to temporarily reduce their consumption) may participate, provided that they meet transparent and non-discriminatory criteria. The minimum participation size is 1 MW of available capacity and the minimum delivery duration is 1 hour; smaller resources may be combined through aggregation to meet this threshold jointly.

Capacity is allocated through competitive "pay-as-clear" auctions – successful participants are ranked according to their bid price, but all receive the same so-called clearing price of the last accepted bid. The main auction, covering 75–90% of the estimated target demand, is held 6 years before the actual delivery period – this long lead time is intended to allow investors in new generation capacity to complete construction in time; the remaining demand is covered by subsequent auctions held closer to the delivery period. Delivery takes place in so-called delivery windows lasting one year (always from 1 November to 31 October of the following year); the first such window will start on 1 November 2030.

A capacity contract normally covers one delivery window (i.e. one year), and the provider must apply for support again in each subsequent auction. Under the CISAF, it was proposed that if a provider invests capital in the resource, it may obtain a longer-term contract – for every EUR 25,000 of investment costs per de-rated MW, the contract duration is extended by one year, subject to a maximum of 15 years for fossil-fuel resources. The

Czech framework adopted a binary model under which a contract securing the required availability of capacity is concluded for a delivery period of either 1 year or 15 years, with no intermediate options. In practice, this means that older resources requiring no investment will likely receive only a short-term, one-year contract, while newly built resources (typically new combined-cycle gas turbine plants costing billions of Czech koruna) may obtain 15 years of revenue certainty, allowing them to repay the investment.

The technology-neutral scheme can provide up to 15 years of revenue certainty for qualifying investments in new capacity.

The estimated total budget of the mechanism ranges from CZK 75 billion to CZK 150 billion (approximately EUR 3.09 billion to EUR 6.19 billion); the exact amount will only be determined based on the actual auction results. The entire mechanism is financed exclusively through charges paid by electricity consumers, without distinction as to whether the electricity consumed originates from domestic generation or imports – this non-discriminatory nature of the charge was key to the Commission's conclusion that the financing does not infringe the prohibition of charges having equivalent effect to customs duties or discriminatory taxation under Articles 30 and 110 TFEU. New capacity contracts may be concluded for a period of ten years from the date of the decision; contracts concluded during this period (e.g. 15-year contracts signed shortly before its expiry) will nevertheless remain in force after the expiry of that period.

Legal Framework for the Assessment

The Commission assessed the mechanism under the Clean Industrial Deal State Aid Framework (the "CISAF"), which sets out requirements for capacity mechanisms corresponding to the target model, and verified compliance with Articles 20 to 27 of Regulation (EU) 2019/943, including an assessment of the market reform under Article 20(3). It also confirmed that financing through a charge applied without distinction between domestic and imported consumption does not infringe Articles 30 and 110 TFEU (the prohibition of charges having equivalent effect to customs duties and discriminatory taxation).

The existence of State aid within the meaning of Article 107(1) TFEU was confirmed, as the mechanism is financed through State resources, is imputable to the State and provides a selective economic advantage to successful auction participants. The Commission nevertheless found that the aid meets both the positive and negative conditions for compatibility (it contributes to the development of an economic activity and does not adversely affect trading conditions to an extent contrary to the common interest) and therefore approved it as compatible under Article 107(3)(c) TFEU.

Practical Implications

The Commission's approval and the subsequent issuance of the general measure of a regulatory nature by the Ministry of Industry and Trade (6 August 2026) enabled ČEPS to launch the first capacity auctions. On 14 August 2026, ČEPS launched two additional auctions (for delivery from 1 November 2030 and from 1 November 2031) and one main auction (for delivery from 1 November 2032). The auctions take place in two steps: first, a preliminary assessment of applicants (applications must be submitted through the Tender Arena system by 20 September 2026 at the latest), followed by the submission of price bids after the final auction parameters are published (the bid template will be available from 21 September 2026).

ČEPS is to assess the results of all three auctions by 31 October 2026, including publication of the clearing price in CZK/MW of eligible capacity per year.

For potential capacity providers (operators of existing and new generation facilities, storage operators and demand-side response providers), this opens up a new source of revenue alongside electricity sales and ancillary services. This revenue is, however, conditional – if a provider fails to deliver the contracted capacity when called upon to do so (whether in an actual emergency situation or during a regular test), it may face financial penalties. Investors in new generation facilities should also monitor the publication of the updated market reform plan (within three months of the Commission's decision, i.e. by October 2026 at the latest).

This summary is based on the public version of the European Commission's decision of 16 July 2026 (SA.120741). For a specific assessment of the impact on your business (e.g. eligibility of a particular resource, expected auction parameters or the relationship with any potential flexibility support scheme), we recommend a follow-up analysis.

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