

Energy Transition: A Multifaceted Challenge for Europe

High-Level Energy Conference The impact of the new EU electricity market design: how will the different pieces of the puzzle fit together?

- Report -

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Egmont – The Royal Institute for International Relations and the Development Group completed their Energy Transition series of events 2016 with the High-Level Energy Conference on 6 December 2016 at the Egmont Palace. With more than 130 participants in the audience, it was the opportunity for representatives from businesses, associations and think tanks to express their views on the market design initiative proposed just one week before in presence of representatives from European institutions and the European co-legislators.

Keynote address

Dominique RISTORI, Director-General at the DG Energy of the European Commission, held the keynote and introduced the key features of the market design initiative. The 'Clean Energy for All Europeans' package presented on 30 November 2016 is the largest ever presented by the European Commission in the field of energy. Half of the package is dedicated to the restructuring of the EU internal market design with a focus on investment, flexibility and security. He insisted the legislation put forward will reinforce the credibility of the European Union on the international scene as it sends clear investment signals to the rest of the world and demonstrates the role of energy transition in supporting economic growth. The Commission is proposing to enhance the price signals for the market through the implementation of scarcity pricing that would better reflect the availability of energy on the market and would stimulate demand response options. Finally, the Director-General addressed the issue of capacity mechanisms. He underlined the need for generation adequacy assessments to be carried out at the regional or at the European level, though not at the national level.



Session 1: Looking forward – how can the European electricity market meet both its flexibility and security objectives?

Juan José ALBA RIOS, Vice President Regulatory Affairs at ENDESA and Chairman of EURELECTRIC's Markets Committee opened the first panel. The priorities identified by the Commission are shared by EURELECTRIC: accomplish the Energy Union and the internal energy market, reach the goal of carbon neutrality by 2050 and promote the role of distribution systems operators as market facilitators while making clear the real value of electricity. Indeed, since 2008, the price of electricity has decreased by 7% while the taxes have increased by 47% causing significant distortions in price signals and leading the consumers to a false impression of the price of electricity. For the association, the market should



not only value energy but also flexibility and capacity. This includes a market-based and a cost-efficient RES support scheme as well as a strengthened ETS. Generation adequacy assessments should be conducted at the regional level – based on a harmonised approach and including demand-side measures –, but complementarily to national assessment, and they should not be the only decisive factor for capacity markets.

Konstantin STASCHUS, Secretary General of ENTSO-E, the European network of transmission system operators for electricity, emphasised the flexibility issue as the integration of energy from renewable sources into the market is posing new challenges for public authorities. Flexibility means a changing role for the networks and consumers as the focus shift from assets building to smart optimisation of generation and load. To support this transition, the market should be sending the right price signals by enabling scarcity pricing and the integration of intraday and balancing markets. The demand response should be enhanced via an open participation to all markets directly and smart meters. A stronger cooperation between transmission system operators, regulators and distribution system operators is also needed. How is the clean energy for all Europeans package performing? The enhanced demand response dimension is the most positive one by enabling dynamic pricing and protecting consumer right to participate in all markets. However, the stronger cooperation is not present and clearly falls short in delivering a better deal for consumers.



Guido BORTONI, President, AEEGSI, recognised the shift from a paradigm in which the demand side is provided with electricity by professionals to a paradigm he called ‘Do it yourself’ in which the consumers is now much more active. The problem is infrastructure was not designed for the new paradigm. He welcomed the Capacity Remuneration Mechanism (CRM) but suggested to tackle it through a regional approach while highlighting its limit. Contract capacity through cross-border participation needs to be delivered physically, not only assessed theoretically. It means: external capacity provider can deliver upon request, transmission capacity across borders is available and the transmission system operator is able to balance the load in the relevant system. This requires a revision of the curtailment rules. He finished his presentation by underlining how valuable it would be for Europe if the integration was taking place at the regional level instead of the European one: the current diversity makes any other approach than a pragmatic one too hard a path to follow.

The moderator of the session, **Philip BAKER**, Senior Advisor at the Regulatory Assistance Project, summarised the contribution from the speakers. He then reminded the audience that the most important element put forward by the Commission is the need to align prices to send the right market signal. He opened the floor to questions. The most provocative question was certainly whether the electricity market in Europe is still investible – an issue that split speakers. K. Staschus from ENTSO-E insisted on the need for a strong legal framework as investments in the grids depend on the legal certainty of the framework. J. Alba Rios though had a word of caution regarding regulatory intervention. Policy-makers should let the market do its job instead of trying to guide it too strongly into one direction. The risk is to make the market “un-investible”.



Session 2: Looking beyond – how to enhance the integration of national markets and consumers in the electricity market?

Dörte FOUQUET, the Director of the European Renewable Energies Federation, presented the current state of play of the electricity market design in Europe. She reminded the audience that rules can be perfect but useless if they are not enforced



Regarding renewable energy, she mentioned that in most member states the development of renewable energy is happening thanks to locally owned infrastructure, with the support or the financial contribution from local consumers – a perfect example of the more active role consumers can play. Renewable energy has brought more competition into the electricity market and challenged the market structures. The market design should support this increased competition by maintaining the priority dispatch for renewables and allowing

producers to sell their production on the market. The market remains distorted against renewables. For renewables to be able to compete on an equal footing with other sources of energy, policy makers should phase out all hidden fossil and nuclear subsidies and continued to be supported as long as needed. There is currently a lack of clarity on support mechanisms that hinders investors' certainty. According to D. Fouquet, the winter package proposed by the Commission is failing renewables on multiple accounts against this benchmark.

Bruno LESCOEUR, Advisor to the President and Chief Executive Officer at EDF, insisted that security of supply is an issue that needs to be dealt with at the national level: Energy markets do not deliver security of supply by themselves while governments have proven to be able to design efficiency mechanisms. The way to capacity mechanisms may vary but it is a solution chosen across Europe: France has opted for a capacity market despite a small fleet; Italy gave up on its energy only market after having invested in renewable energy while the UK came to a capacity market after having tried many market organisations. Demand-side-management and energy efficiency can certainly help. Regional adequacy assessments should be supported but the methodology has to be transparent and efficient. This should go hand in hand with more interconnection capacity to allow for cross-borders flow. Finally, he mentioned the objective to develop a mutually beneficial coordination of the national markets and put distribution coordination as the main pre-condition to it.



Wolfram VOGEL, Director Public & Regulatory Affairs and Communications at EPEX Spot, the European spot market player currently covering half of power consumption in Europe, underlined that there is a de facto integration of some European markets. Market integration in Europe can take



different shape depending on whether one looks at day-ahead or intraday markets. Flexibility is currently not well valued in these markets. Multi-regional coupling now covers 85% of European electricity demand. For intraday markets, there is currently almost no coupling but XBID, a mechanism of continuous cross-borders intraday trading is expected to be initiated next year. In the package, the focus on short term markets and reliable price signal is right, according to W. Vogel.

Manon DUFOUR, Head of Brussels Office at E3G, was moderating this session. She asked the members of the panel to explain the conditions that need to be met to better integrate renewables into the markets. The first element is to promote a better cooperation at the regional level and that includes more interconnections between systems. The discussion continued on the inclusion of an emission performance standard of maximum 550g CO₂ per kWh. This is an inclusion welcomed by all actors around the table as it would lead the way towards reducing the greenhouse gases emissions of the electricity sector. Finally, she raised the question of the change of mentality that the inclusion of demand-side-management requires. Panellists underlined that demand-side-management and energy efficiency are crucial and need to be better integrated into discussions around the market design.

