
European Commission Public Consultation on a New Energy Market Design

Cefic supports the building of a liberalised European energy market that is based on full and open competition, and is designed to lead to uninterrupted, competitively priced, secure energy for all consumers. This is a fundamental necessity for EU energy intensive industries to be able to compete in an internationally competitive environment.

We support the European Commission's aim to develop an EU electricity market to facilitate the free flow of energy across borders through the cost-conscious expansion of strategic energy interconnectors and grid upgrades. We also welcome the move to support consumers in playing a more active role in the market including the roll-out of technology that will facilitate access to information on costs, and consumption and help them make better informed energy choices.

The need for Member States to deepen cross-border cooperation is also paramount in the creation of a new market. This will require greater coordination between governments, and between bodies including TSOs, DSOs, ENTSO-E, and ACER.

Vitaly, a properly functioning, consumer-oriented market can only be truly open with the phasing out of political interference and the removal of distortions that exclude consumer choice and competition. Subsidies for renewable or any other form of energy production need to be swiftly phased-out. Technologies should compete on a level playing-field free from subsidies or other interventions which distort the market and hinder investments. The removal of these obstacles which exist in the current market, and the establishment of policy framework conditions which remain predictable and stable over the longer term are essential to the success of a liberalised market.

We believe any form of capacity mechanism should only be a measure of last resort. EU harmonised rules for such mechanisms should be introduced which state that if they are strictly necessary, they must be temporary, regional, and focused on safeguarding security of supply at minimal cost to the consumer.

Some potential may exist for voluntarily and appropriately compensated industrial demand side response but further investigation by the EC and Member States with the full participation of relevant stakeholders including industry is necessary.

The EC puts forward the view that the market will include a marginal price system, subsidies, and capacity mechanisms. We are concerned that this will result in consumers continuing to pay for these, and national taxes and levies, and extra transport costs on top of the commodity price which is driven by an ETS inflated marginal price. This combination will not deliver competitive electricity prices for industry.

Commission Questions (Q) and Cefic Responses (R)

Q1 Would prices which reflect actual scarcity (in terms of time and location) be an important ingredient to the future market design? Would this also include the need for prices to reflect scarcity of available transmission capacity?

R1 We support an electricity market based on full and open competition which is designed to deliver uninterrupted, competitively priced, secure energy.

The future market should be fully liberalised, meaning that prices (taking into account all elements, including transport) will reflect the actual market situation, i.e. scarcity, abundance or oversupply. Only then will the market give the appropriate consumption/production signals, and subsequently the relevant investment signals for generation capacity, storage and transmission.

Regarding transmission of electricity this is currently provided by TSO regulated monopolies and is resulting in transport fees for the consumer. Transport fees do not reflect scarcity of available transmission capacity. However, since markets are coupled, transmission capacity scarcity is reflected in the coupling or decoupling of the markets. ENTSO-E should support the continued development, at efficient costs, of a reliable, sustainable and connected European electricity system that meets the needs of European consumers.

Q2 Which challenges and opportunities could arise from prices which reflect actual scarcity? How can the challenges be addressed? Could these prices make capacity mechanisms redundant?

R2 As an energy intensive industry sector, a significant number of our processes require uninterrupted supply of energy. Likewise, the competitiveness of Europe, and the potential for economic growth depends on safeguarding industries' access to competitive, reliable energy supplies. It is therefore important to ensure the future market design will deliver this.

The over-regulation of today's market has led to distortions, uncertainties and a lack of investments, resulting in capacity issues in certain countries. Such distortions coupled with actual scarcity could lead to extremely high prices. These market interventions should be corrected in such a way that the competitive position of the EU (compared to the US or other industrialised regions) is not harmed any further.

Prices reflecting the actual situation in the market could lead to higher volatility, which equals higher risks due to an increasing share of intermittent sources. When addressing the issue of intermittency, reliable and liquid instruments, together with physical (forwards) or financial (hedging) markets and instruments should be made available to manage these risks.

Q3 Progress in aligning the fragmented balancing markets remains slow; should the EU try to accelerate the process, if need be through legal measures?

R3 Yes. Almost all balancing markets are currently limited to national TSOs or national balancing zones. Liquid (cross border) balancing markets are a prerequisite for the proper functioning of integrated energy markets, supported by strong regional cooperation ultimately leading to

maximum benefits from cross-border competition. To support and boost this cooperation, the establishment of legal measures might be useful.

The ongoing electricity balancing pilot projects are promising steps to an integrated balancing market. However, compliance of these and any regional initiative with the overall European target model is paramount. Otherwise, a fragmented market is likely to remain.

Q4 What can be done to provide for the smooth implementation of the agreed EU wide intraday platform?

R4 The Cross Border Implementation Project (XBID) should be pushed on and revised on a regular basis. Local Implementation Projects (LIPs) should be implemented in full compliance with the target model to foster initial operational experience with intraday market coupling.

Q5 Are long term contracts between generators and consumers required to provide investment certainty for new generation capacity? What barriers, if any, prevent such long term hedging products from emerging? Is there any role for the public sector in enabling markets for long term contracts?

R5 The conditions established through a liberalised market normally would dictate the decision of a consumer and electricity supplier to enter in to a long term contract. If the market is functioning correctly, consumers will find the suppliers willing to provide the contracts in line with their needs and their profile, whether it is long term contracts or short term agreements.

The current market has not provided long term certainty for investments due to interventions by the EU and Member States. This has led to an unstable investment environment for companies who see great risk in taking long term decisions whilst the market remains unstable. Intervention in the market, including that of the public sector, distorts its correct functioning and produces uncertainty.

Q6 To what extent do you think that the divergence of taxes and charges levied on electricity in different Member States creates distortions in terms of directing investments efficiently or hamper the free flow of energy?

R6 Levied taxes and charges (which are passed on to the consumer) make-up a large part of the electricity price and will always create price distortions between Member States, including for industry.

Investors face major regulatory risks when considering cross-border investments where taxes and charges are different and change frequently (without sufficient transparency) between countries, which could lead to perverse energy flows (from zones with high production costs to zones with low production costs).

Q7 What needs to be done to allow investment in renewables to be increasingly driven by market signals?

R7 Europe should support direct investments to energy technologies (including renewables) that are driven by signals generated from a liberalised market. Technologies should compete on a level playing-field free from subsidies or other interventions which as we see currently distort the market and hinder any investment.

In helping to unlock the significant cost saving potential of a fully liberalised market, Member States should seek to coordinate their energy and climate policies. Developing such cooperation should include:

- The phase-out of subsidies outside the market and a shift towards research and innovation for low carbon technologies and storage;
- Allow markets to solve the capacity challenge by finding the best and most competitive flexibility-option such as storage, reliable power plants back-up or demand-side response;
- Promote market integration of intermittent energy sources by internalising back-up and storage costs;
- Allow markets to identify the most flexible solutions to react to energy supply and demand and avoid setting different price or policy signals to promote one more than the other.

Until commercially viable energy storage solutions are found the EU's energy system should maintain a balanced energy mix.

Likewise, there are measures including energy efficiency which are low-cost examples of reducing energy consumption across the EU.

Q8 Which obstacles, if any, would you see to fully integrating renewable energy generators into the market, including into the balancing and intraday markets, as well as regarding dispatch based on the merit order?

R8 Obstacles include subsidy schemes and market interventions.

Instead of adapting the market to renewables, the market design should integrate renewables in the market by giving all generation capacity the same rights and obligations in terms of balancing and backup.

Q9 Should there be a more coordinated approach across Member States for renewables support schemes? What are the main barriers to regional support schemes and how could these barriers be removed (e.g. through legislation)?

R9 We support the removal of renewables support schemes as soon as possible because they lead to major distortions in the market. Most support schemes are based on political instead of economic considerations, leading to inefficient investment decisions and high costs and taxes for consumers.

Q10 Where do you see the main obstacles that should be tackled to kick-start demand- response (e.g. insufficient flexible prices, (regulatory) barriers for aggregators / customers, lack of access to smart home technologies, no obligation to offer the possibility for end customers to participate in the balancing market through a demand response scheme, etc.)?

R10 Some potential may exist for voluntarily and appropriately compensated industrial demand side response. However, whilst traditional industrial response was designed to react to network congestions at times of peak electricity demand the new challenge is how to integrate further variable electricity generation in to the system. Not all energy intensive processes possess the flexibility for demand side response requirements due to technical, operational and market constraints.

Current regulatory, market and legislative barriers, as well as differences between systems in the Member States are the main reason for a lack of progress in this issue. For example, at present network tariffs and charges exist which discourage industries accessing the grid. Likewise, there exist in many Member States restrictions of electricity demand-side response to certain voltage levels.

To further develop the potential of industrial demand side response a number of immediate steps could be taken by policy makers at the EU and national level. For example, industry currently lacks information on the number of hours per year such schemes would require to balance the market. Such information is crucial for industry in building a long term business plan. Network codes would also need to be adjusted without thresholds for market access, or minimum size for balancing products (or asymmetrical participation in network service systems for voltage and frequency) so as not to restrict participation to historical players but to facilitate the participation of industry players in these mechanisms). Any discrimination between generation and load in tendering procedures for balancing products, strategic reserves or other flexibility products should be removed, and there should be no extra grid costs for participating in demand response schemes.

Furthermore, R&I in industrial energy storage systems should be stimulated to promote new technologies that are able to reduce volatility at the lowest possible cost.

A new approach to any form of industrial demand side response will need to be further investigated by the EC and Member States with the full participation of relevant stakeholders including industry.

Q11 While electricity markets are coupled within the EU and linked to its neighbours, system operation is still carried out by national Transmission System Operators (TSOs). Regional Security Coordination Initiatives ("RSCIs") such as CORESO or TSC have a purely advisory role today. Should the RSCIs be gradually strengthened also including decision making responsibilities when necessary? Is the current national responsibility for system security an obstacle to cross-border cooperation? Would a regional responsibility for system security be better suited to the realities of the integrated market?

R11 Better cooperation between TSOs could foster the integration of the electricity market and improve the efficiency of investments (i.e. usefulness and cost). Many investment decisions are currently made not only from a national perspective, but also based on the financial interest of individual TSOs. A gradually strengthened RSCI, including decision making responsibilities when necessary, could be an effective instrument. Parallel to the enforcement of RSCI, a stronger independent regulator is necessary.

Q12 Fragmented national regulatory oversight seems to be inefficient for harmonised parts of the electricity system (e.g. market coupling). Would you see benefits in strengthening ACER's role?

R12 Yes (see also previous answer).

Q13 Would you see benefits in strengthening the role of the ENTSOs? How could this best be achieved? What regulatory oversight is needed?

- R13 Yes. Strengthening the role of the ENTSOs could stimulate more cooperation if initiated alongside increased responsibility for ACER. Any such move should ensure the full involvement of the consumer as a key-stakeholder.
- Q14 How should governance rules for distribution system operators and access to metering data be adapted (data handling and ensuring data privacy etc.) in light of market and technological developments? Are additional provisions on management of and access by the relevant parties (end-customers, distribution system operators, transmission system operators, suppliers, third party service providers and regulators) to the metering data required?**
- R14 Providing (near) real time information is a prerequisite for linking wholesale and retail markets more closely, notably by offering prices to end-users which reflect variations in wholesale prices. DSOs should play a central role in providing end-users with the necessary information including (near) real time market signals for active participation of consumers and consumer choice. Also such information is essential in providing reliable accounting and data handling. Any such data sharing should ensure confidentiality of any sensitive information.
- Q15 Should there be a European approach to distribution tariffs? If yes, what aspects should be covered; for example tariff structure and/or, tariff components (fixed, capacity vs. energy, timely or locational differentiation) and treatment of self-generation?**
- R15 In case different electricity tariff structures lead to barriers of cross border trade, harmonisation should be fostered. Although the gas and electricity markets are different, lessons can be learnt from the efforts (and challenges) of the network code on gas transmission tariffs.
- Q16 As power exchanges are an integral part of market coupling – should governance rules for power exchanges be considered?**
- Q16 Power exchanges are successfully providing liquid trading platforms including for cross border trade. Governance rules could lead to market distortions and should only apply in case of evidence that these platforms are not efficient, which is not the case.
- Q17 Is there a need for a harmonised methodology to assess power system adequacy?**
- R17 Yes. A 'one size fits all' harmonised methodology to assess power system adequacy should be used, but currently does not exist because the composition of the generation capacity (including its primary fuel mix) differ in each Member State. A harmonised methodology should also include the mandatory need for Member States to share the results of their assessments. We would support further EC investigation in this area.
- Q18 What would be the appropriate geographic scope of a harmonised adequacy methodology and assessment (e.g. EU-wide, regional or national as well as neighbouring countries)?**
- R18 Regional (or national) initiatives – with the aim to subsequently attain an EU-wide harmonised assessment. This question should be further analysed and coordinated by the Florence Forum.
- Q19 Would an alignment of the currently different system adequacy standards across the EU be useful to build an efficient single market?**
- R19 Yes, the current different adequacy standards, including the patchwork of different capacity reserve mechanisms (or the such like), and subsidies for renewable technologies, are barriers to a well-functioning cross border market. The impact of both imported energy and indigenous

generation should be taken into account when assessing adequacy. Likewise, future investments in network infrastructure or new generation capacity should be made only if they are proven to be necessary in terms of adequacy.

Q20 Would there be a benefit in a common European framework for cross-border participation in capacity mechanisms? If yes, what should be the elements of such a framework? Would there be benefit in providing reference models for capacity mechanisms? If so, what should they look like?

R20 Capacity mechanisms (CRM) should be a measure of last resort. If they are strictly necessary, then they must only be temporary and focused on safeguarding security of supply. EU harmonised rules for CRMs should be introduced. Any future implementation of a CRM should only be at regional (cross-border) level.

Various Member States have already implemented measures such as capacity mechanisms, strategic reserves etc. They constitute an additional regulatory intervention in the energy market and the EC should look to lay-down uniform rules for their introduction, implementation and operation.

For energy-intensive industries, such mechanisms can mean another level of cost burden and additional market complexity. With the reduced competitiveness of conventional generation because of subsidies for renewables and the absence of an efficient integrated market, it is a mistake to try to resolve a problem with yet more subsidies and interventions.

Capacity needs should be met in an optimal way, taking into account European, regional and grid-related aspects, by making use of the advantages of cross-border integration to reduce the need for redundant back-up capacity. Furthermore, the market design should lead to prices that provide the right investment signals to ensure an uninterrupted, competitive, stable and secure energy supply, both in the short and in the long term.

Rather than introduce capacity mechanisms, Cefic recommends:

- enhance European coordination and enlargement of cross-border grid capacities which would help to further reduce the need for (national) capacities;
- increase transmission and strategic interconnector capacity at the lowest possible cost, and optimize allocation and congestion mechanisms;
- simplify permitting procedures for new generation capacity;
- maintain a balanced energy mix, with steady decarbonisation of the system at the lowest possible cost;
- further investigate with the full participation of relevant stakeholders the potential of voluntary demand side response;
- stimulate research into economically viable methods of electricity storage.

However, should the EC continue to allow the introduction of capacity mechanisms across the EU it should establish clear guidelines on their use. Any introduction of a capacity mechanism should:

- be coordinated at the regional and/or EU level;
- be aimed at solving a specific, well-defined problem (e.g. generation adequacy issue); the need for their introduction has to be well documented (including cost impact assessment);

- be temporary, cost efficient and have minimum impact on market functioning and integration;
- be financed by those who created the problem;
- reward load flexibility on an equal basis compared to (additional) generation capacity;
- avoid the introduction of multiple capacity mechanisms etc, in a single regional electricity market.

Q21 Should the decision to introduce capacity mechanisms be based on a harmonised methodology to assess power system adequacy?

R21 Capacity mechanisms should be a measure of last resort. If they are strictly necessary, then they must only be temporary and focused on safeguarding security of supply. EU harmonised rules for CRMs should be introduced. Any future implementation of a CRM should only be at regional (cross-border) level.

For more information please contact:
Guy Parker, Manager Energy and Climate Policy, Cefic,
+32 2.676.73.67 or gpa@cefic.be.

About Cefic

Cefic, the European Chemical Industry Council, founded in 1972, is the voice of 29,000 large, medium and small chemical companies in Europe, which provide 1.2 million jobs and account for 17% of world chemicals production.