

Position paper

Clean energy for all Europeans (1/2)

Electricity regulation & electricity directive

'Shaping a supportive market design'

The market design proposals represent a unique tool and opportunity for EU decision-makers to both make the Energy Union happen and help Europe meet its climate and energy targets for 2030, while reducing costs for consumers. To achieve these objectives, the EU needs a supportive market design. This position paper provides a critical assessment of the European Commission's proposals.

1. Building on a good legislative proposal

Based on recommendations made by the European Parliament¹ and the Council of the EU², the European Commission has published very positive, market-based and forward-looking legislative proposals. EUGINE would like to highlight the following very good provisions included in the proposed regulation and which should be preserved if EU decision-makers want to achieve a successful and cost-efficient energy transition:

- **Balancing responsibility for all** (art. 4*), **'end of priority dispatch'** (art. 11*) and **protection against 'non-market-based curtailments'** (art. 12*). However, to avoid market distortions, the proposed derogations in article 4* and 11* should not be granted to aggregators.
- **Imbalance settlement** at a price reflecting the real-time value of energy, balancing energy settlement with marginal pricing, bidding as close as possible to real time (art. 5*)
- **Reduction of the imbalance settlement period** (art. 7*). However it should be reworded so that it becomes possible to go below 15 minutes: the period should be "*shorter than or equal to 15 minutes*".
- **No price caps** (art. 9*). However, the possible derogation with a minimum price cap set at "*-2000€ or less*" is not justified and should be removed.
- **Forward hedging products** to hedge financial risks from price fluctuations (art. 3* & 8*).
- **Actions against price restrictions** (art. 9*) and **regulatory distortions** (art. 18*). However, the wording should be strengthened. In article 9, the Commission should be able to request additional actions so that full compliance is ensured. In article 18*, a deadline should be set, e.g. "*by 1 January 2023 at the latest*".
- **Emission Performance Standard (EPS) of 550 g CO₂/kWh**. However, a smart and stable calculation methodology should be added by delegated act (art. 23*).



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- EUGINE very much welcomes the market design proposals of the European Commission.
- The market-based and forward-looking approach must be supported and reinforced.
- All capacity mechanisms are distorting the market and should be phased-out rapidly.
- To reduce costs, technology neutrality should be ensured.

EUGINE is the centre of knowledge for engine power plant technology and electricity market design. Its members are the leading European manufacturers of engine power plants and their key components. They provide forward-looking solutions for flexible electricity generation.

EUGINE works with EU and national institutions in order to help the European electricity system to meet the challenges of today and tomorrow.

→ [Further harmonisation through network codes and guidelines](#). However, experience with e.g. the network code ‘requirements for generators’ has shown that legislation should provide an “appropriate degree of harmonisation”, not the “minimum” one (art. 54* & 57*).

2. Phasing-out capacity mechanisms

To prevent State aid from distorting competition in the internal market, article 107 of the Treaty on the Functioning of the European Union lays down the principle that State aid is prohibited, except where such aid for example facilitates the development of certain economic activities and “*does not adversely affect trading conditions to an extent contrary to the common interest*”.

For EUGINE, capacity mechanisms (CMs) are State aid schemes distorting market conditions and running against the five dimensions of the Energy Union, thus undermining Europe’s general interest:

- CMs have nothing to do with solidarity, they even potentially lead to mistrust between Member States;

- CMs are national funding schemes re-splitting the internal market into 28 national markets;
- CMs often support old and inefficient power plants instead of focusing on modern and energy-efficient solutions (e.g. gas engine power plants may reach 95% efficiency)
- CMs keep older power plants in the system, including coal-fired power plants with very high carbon emissions
- By keeping older assets in the system, CMs prevent innovative solutions from entering into the market. Public money is spent to develop innovative technologies (research policy), but also to keep the old ones running (CMs)...

To avoid such inconsistencies and support the Energy Union, EUGINE calls on EU decision-makers to ensure that CMs are progressively phased-out.

EUGINE recommends the following modifications:

- Preference should be given to least distortive concepts like ‘strategic reserves’ (recital 30*)
- A more balanced CM definition (art. 2*)

- Design principles should be made more specific and restrictive (art. 23*)
- [Any CM should be a temporary scheme](#): it should include a plan how to address residual adequacy concerns, be limited in time and removed as soon as the concern was addressed (art. 23*)

3. Need for flexibility and a level playing field

For EUGINE, the proposals should more clearly acknowledge the need for:

- [flexibility](#) (e.g. recital 9° and article 59°)
- [technology providers to be consulted](#) (article 52*, 56*)
- [a level playing field](#) allowing technologies to compete with the same market conditions, thus reducing total costs (recital 5*, recital 5°, Article 5*, 18*, 31°, 32°, 36°, 40°, 42°, 54°)

4. Next steps

Please find in annex the amendments suggested by EUGINE to shape a supportive market design, ensuring a successful and cost-effective energy transition. EUGINE would be pleased to provide any additional information to the EU decision-makers.

Footnotes

1. [European Parliament resolution of 13 September 2016 on Towards a New Energy Market Design](#)

2. [Outcome of the meetings of the Council of the EU of 26 November 2015 & 6 June 2016](#)

* [Revised electricity regulation proposed by the European Commission on 30 November 2016](#)

° [Revised electricity directive proposed by the European Commission on 30 November 2016](#)

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