Ensuring a successful trilogue for a future-proof electricity market design

The European Parliament and the Council of the European Union have finalised their respective amendments to the European Commission original version of the Electricity Market Regulation and Directive as published in November 2016. These documents form the basis for the trilogue negotiations soon to be kicked off. The positions approved by the two institutions already overlap on several topics, but for the trilogue negotiations to successfully deliver a sustainable and future-proof electricity market design a number of provisions need to be improved. With this paper the European Energy Exchange (EEX) and the European Engine Power Plants Association (EUGINE) put forward their suggestions for a fruitful and effective trilogue.

Six suggestions to fix the market design

1. Free and unconstrained power prices as a basis for investments

Regulated prices undermine the basic rule electricity market are based on: the price is given by the balance between demand and supply. Policies a priori imposing a fixed floor or cap price prevent competition and hinder transparency as to the value of flexibility provided by market participants.

Regulated prices at wholesale level should be phased out in all European markets. Articles 3 and 9 of the Electricity Regulation go in this direction as to wholesale markets whilst acknowledging the crucial role of harmonised technical price limits set by nominated electricity market operators.

2. Capacity Remuneration Mechanisms as a measure of last resort

Capacity remuneration mechanisms shall be a measure of last resort and subject to strict requirements and scrutiny, to reduce negative effects on the power market, as they essentially are market distortions. From an economic point of view, they should be progressively phased out in order for all energy sources to effectively compete on the market and thus reduce energy costs for businesses and citizens. From an environmental point of view, they should not be used as a shortcut to keep inflexible and polluting power generation capacity in the system. They have therefore to be in line with the broader goal of a European single electricity market fostering a clean energy transition. Capacity remuneration mechanisms should also be opened to capacity located in different Member States.

We call for EU legislators to make sure capacity remuneration mechanisms are used as measure of last resort by Member States and that they are compliant with the objectives of the EU climate & energy policy. If capacity remuneration mechanisms cannot be avoided, priority should be given to strategic reserves with capacities held outside of the market, for a limited

amount of time. If a CO_2 limit value is defined by decision-makers, it should absolutely be accompanied by a clear and appropriate calculation methodology and take into account also specificities of different technological solutions. Articles 21, 22, 23 and 24 of the Electricity Regulation shall roll-out this long-term vision for capacity mechanisms.

3. A true level playing field for all technologies

Exemptions to market rules may be justified under specific circumstances, however too many exemptions cannot but would certainly lead to market distortions. As long as some technologies either benefit from priority dispatch or are exempted from balancing responsibility (i.e. power generation below 500 kW or 250 kW are currently under discussion) and only one single technology may be bought, owned and managed by grid operators (i.e. storage), the targeted level playing field remains a theoretical concept.

In systems with high shares of wind and solar power, operators will pick and choose flexibility technologies according to their specific situation and needs, be they extremely short-term flexibility (available within milliseconds) or long-term flexibility (available for days or weeks). No single flexibility option will be able to efficiently meet the various needs for flexibility. As a consequence, liberalised and liquid short-term energy-only markets are the best option for grid operators to procure flexibility and for decision-makers to incentivise investments in flexibility.[1]

Derogations currently offered to certain technologies should be progressively phased-out, except for existing installations ("grandfathering clause") and no new derogation (esp. on storage technology) should be created. For this to happen, articles 4, 11 and 12 of the Electricity Regulation as well as articles 36 and 54 of the Electricity Directive should reflect this vision of a fully competitive electricity market.

4. Forward and future markets

Through forward and future markets conventional and renewable market players can hedge against price volatility risks due to increasing RES in-feed for weeks, months and years in advance, securing their revenues in the long term.

The critical role of forward and future markets is confirmed by their volumes' steep increase over the last years and the fact that they now represent over two thirds of all power traded in the EU[2]. Healthy forward and future markets mean less need for distortive interventions in the power market in the forms of subsidies or capacity remuneration mechanisms.

[1] C. Perez Linkenheil, I. Küchle, T. Kurth and F. Huneke (2017), "Flexibility needs and options for Europe's future electricity system", study by Energy Brainpool for EUGINE. http://www.eugine.eu/cms/upload/Publications/EUGINE_2017-09-07_Energy-Brainpool_Study_Flexibility-Needs-and-Options_Final.pdf

[2] For more information please see EFET: www.efet.org/Files/Documents/.../EFET_CEP-amendments_Forward_June-2017.pdf

Articles 3 and 8 of the Electricity Regulation, in particular, need to clearly state that all regulatory changes operated to the EU power market design take into account the impact on forward and future markets, in particular bidding zones configuration.

5. Large and liquid bidding zones

The high liquidity provided by large, cross-border bidding zones benefits all sorts of energy generation through efficiently balancing supply and demand. Uncertainty as to bidding zones configurations also has negative impacts on the energy generation business, hampering current operations and future investments. That is why it is paramount that Member States and Transmission System Operators carefully assess long-term structural grid congestions, including all affected stakeholders in such an evaluation process, and roll-out the least market-distortive congestion management means. The value of long-term stability for investors and the decreasing redispatching costs should be considered in such assessment.

Legislation, and in particular, articles 13 and 14 of the Electricity Regulation, should recognise the importance of large bidding zones for short-term and long-term electricity markets. The split of bidding zones should be considered as a measure of last resort while also the possibility of extending bidding zones should be within the scope of the legislation.

6. Imbalance Settlement Periods fit for renewables

The Imbalance Settlement Period (ISP) should be drastically reduced to smoothly integrate higher shares of electricity coming from variable renewable energy sources. Granting derogations and exemptions to the 15 minutes ISP as proposed in the general approach adopted by the Council risks hindering the development of flexibility solutions which are key for ensuring the stability of the grid.

For article 7 of the Electricity Regulation, we call on EU decision-makers to reduce the ISP to at least 15 minutes by 2021, without any derogation or exemption, and already foresee a further reduction to 5 minutes for the future, possibly by the end of the decade.

Conclusion

EEX and EUGINE stress the importance of the above-mentioned six key pillars for a successful trilogue negotiation leading to an EU market design delivering market-based security of supply:

1. **Free and unconstrained market prices**
2. **Capacity Remuneration Mechanisms as a measure of last resort**
3. **A true level playing field for all technologies**
4. **Forward and future markets.**
5. **Large and liquid bidding zones**
6. **Imbalance Settlement Periods fit for renewables**

About

EEX Group provides the market platform for energy and commodity products for participants in more than 30 countries worldwide. The offering of the group comprises contracts for Energy, Environmentals, Freight, Metals and Agriculturals. With high specialisation and local presence in their core markets, the companies of EEX Group answer to the needs of their customers for tailor-made solutions and easy market access. The synergetic, integrated group portfolio is completed by two clearing houses which ensure proper clearing and settlement of trading transactions. EEX Group is based in 16 worldwide locations and is part of Deutsche Börse Group.

EEX Group consists of the following companies: European Energy Exchange (EEX), the European Power Exchange (EPEX SPOT), Powernext, Cleartrade Exchange, Power Exchange Central Europe (PXE), Gaspoint Nordic, Nodal Exchange and the clearing companies European Commodity Clearing (ECC) and Nodal Clear.

For more info visit www.eex-group.com.

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

EUGINE consists of the following companies: ABB, Caterpillar Energy Solutions, EC Power, GE Power, Liebherr Machines, MAN Diesel & Turbo, Marelli Motori, MTU, Rolls-Royce Power Systems, Wärtsilä.

For more info visit www.eugine.eu.

Contacts

Gaëtan Claeys
Manager of European Affairs, EUGINE
gaetan.claeys@eugine.eu
+32 2 7 06 82 97

Giorgio Corbetta
Political and Regulatory Affairs Advisor, EEX
giorgio.corbetta@eex.com
+49 15 25 47 25 995
+32 2 627 1938