

# // **JOINT MESSAGES**

# EUROPEAN ENERGY INDUSTRIALISTS' RECOMMENDATIONS FOR THE ENERGY UNION

A well-functioning interconnected internal energy market is a prerequisite to guarantee that electricity supply is secured, at least cost for consumer, while achieving the sustainability objectives in Europe. Implementing the Third Energy Package rules and accomplishing the internal market should therefore be a matter of priority and has to go together with the completion of the required infrastructure links. These two elements are the backbone of the future European energy system.

In addition to the positive measures already taken and under way, it is important to start thinking about the next steps and to prepare additional measures for which a need may arise in the future. This shall be done in a consistent, coordinated and concerted way. The Energy Union will be the framework. In these Joint Messages, the European Energy Industrialists give their key recommendations for the next steps of the Energy Union.

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## 1. ENERGY SECURITY, SOLIDARITY AND TRUST

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Solidarity and coordination between Member States brings an essential contribution to ensuring better energy security at a lower cost. The following measures are no-regret options that will contribute to increased energy security, solidarity and trust in Europe:

- National energy policies should be concerted (upcoming "Governance Framework"),
- The importance of key partners of the European Union (e.g. Norway, Switzerland) should be recognised and relations should be reinforced for mutually beneficial cooperation,
- Network planning should be further coordinated (as already ongoing through the Ten Year Network Development Plan (TYNDP)) and the necessary infrastructure should be developed. Adequate transmission infrastructure is key to achieve Europe's energy goal of security of supply,
- The role of Regional Security Coordination Initiatives (RSCIs) should not be threatened by over-regulation. They already play an essential role in identifying and managing potential threats to secure system operations and will be further developed by Transmission System Operators (TSOs) and the European Network of Transmission System Operators for Electricity (ENTSO-E).

## 1.1 SYSTEM SECURITY SHOULD BE ASSESSED AT REGIONAL LEVEL

In an interconnected system, system security and generation adequacy are no longer national questions. The assessment of generation adequacy should be made at regional and European level, and common methodologies should continue to be improved by TSOs in close collaboration with governments,

regulators and all stakeholders. The methodologies developed by the Pentilateral Energy Forum<sup>1</sup> and ENTSO-E form a good basis for further developments.

<sup>1</sup> Probabilistic methodology with proper treatment of interconnection availabilities as well as variable renewable sources and hydrological conditions

## 1.2 SECURITY OF SUPPLY POLICIES SHOULD BE BASED ON ADEQUACY ASSESSMENTS

National and regional policies related to security of supply should be based on a reliable identification of adequacy issues thanks to coordinated assessments by TSOs. Should the Electricity Security of

Supply Directive (2005/89/EC) be reviewed, then it should anchor the adequacy assessments as reference point for defining policies related to security of supply.

## 1.3 SECURITY OF SUPPLY POLICIES SHOULD BE COORDINATED

Coordinated market-based approaches to adequacy and security of supply should be preferred and reinforced when possible. TSOs and generators can provide objective assessments on the impacts, op-

portunities and risks of different policy options to power system operation. When identified as the best solution to cover adequacy issues, public intervention should be strongly coordinated at regional level.

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# 2. A FULLY-INTEGRATED INTERNAL ENERGY MARKET

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European citizens and enterprises need sustainable, secure energy at least cost. The energy system urgently needs investment in all parts of the value chain. A well-functioning and integrated market, with effective competition, can deliver the meaningful price signals, efficient decisions and investor confidence to satisfy these needs.

Three key conditions for a well-functioning market are:

- A) A level playing field with fair competition between:
  - Generation, storage and demand-side participants,
  - “Domestic” and cross-border market participants,
  - Small-scale and large-scale installations / services,
  - New and existing installations / services.
- B) A transparent, liquid wholesale market accessible to participants, with standard products and easily accessible trading platforms. Energy trading is the lubrication oil that allows for efficient matching of demand and supply.

C) Adequate distribution and transmission infrastructure, particularly across borders. By connecting different power markets in terms of generation mix and power price structures, they directly contribute to all three EU energy objectives: they improve security of supply, renewable power production and competitiveness.

To fulfil these three conditions, the current market design needs to be updated. The following aspects should be tackled by the forthcoming European Commission's market design initiative:

## 2.1 IMPROVING THE ENERGY ONLY MARKET – ENHANCING FLEXIBILITY

In order to cope with the consequences of an increased share of variable and non-dispatchable generation on the system, there is a need to enhance flexibility in balancing the system. To achieve this, a number of measures should be taken:

- Short-term markets, including the balancing market, should be further developed and regionalised,
- Gate closure of intra-day trading should be set as close as possible to delivery,
- All sources of flexibility, including demand-side participation, should participate in the market.

An updated market design should give the right price signals to all market participants in order for them to actively contribute to system reliability. With a correct balance responsibility, market participants will

be appropriately incentivised to solve the imbalances they are accountable for. Imbalance prices should therefore reflect the full market value of balancing energy at that time. In this context, increasing volatility and price spikes should be accepted.

Managing the risks of being exposed to peak prices in the intra-day and balancing market will incentivise innovation in new services and products by market participants. In a well-functioning market, these services and products will emerge if market participants have the need for them. The products should be suitable for cross-border participation and only in the case of an identified market failure should they be implemented with a regulated framework. Policy-making should therefore focus on improving the market design to ensure that these products can be traded across borders.

## 2.2 ENSURING THAT GENERATION ADEQUACY MEASURES ARE EFFICIENT

Where they have been identified as a necessary remedy to market failure, capacity markets should provide efficient investment signals for minimised costs of adequate generation capacity. The key principle is a fully market-based pricing that does not discriminate between technologies, between new and existing capacities, and between internal and cross-border capacities.

Without prejudice to the measures possibly required for ensuring generation adequacy, public intervention introducing subsidies into the electricity market should be avoided.

In order to build trust in the market functioning for investors a stable regulatory framework is required. Changes to the current regulatory arrangements need to be carefully considered and implemented where they enhance certainty for investors and create value for consumers.

## 2.3 ACCELERATING THE ROLL-OUT OF SMART GRIDS

Given the changing nature of the system, smart grids roll out should be facilitated through normalisation. They offer significant flexibilities:

- To better manage the distribution grid,
- To integrate distributed resources,
- To enhance customers' role in demand side management.

The flexibilities created by smart grids technologies should be integrated into existing market mechanisms, so they can be used to the benefit of all actors: TSOs, DSOs, service providers, balance responsible parties, etc.

This principle does not only apply to demand side response technologies, but also to storage. As distributed solutions are increasingly important, market design should enable TSOs to procure balancing services and DSOs to buy congestion management services from a wide range of suppliers. In this context, it is of course essential that, to ensure fair competition, EU unbundling rules, as foreseen in the Third Energy Package, are correctly implemented.

The design and deployment of smart meter technology need a clear definition of tasks, roles, responsibility and requirements about data access to ensure secure and efficient operation of the grid and that consumers are able to reduce their exposure to peak prices. Regulation of smart meters should be restricted to metering only. Technology for demand management should not be regulated, but kept open to competition (see 3.2).

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## 3. MODERATION OF ENERGY DEMAND

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### 3.1 ENERGY EFFICIENCY AS KEY DRIVER FOR DEMAND MODERATION

Energy efficiency should be implemented at the least possible cost to consumers, utilities and to society at large.

- Adverse effects of overlap between efficiency instruments and the EU Emissions Trading System (ETS) should be avoided,
- There should be an adequate balance of market-based instruments and setting of standards, given the many barriers to efficiency improvements that exist (information asymmetry, principal-agent problem, etc.),

- Energy Services Companies (ESCOs) and further financial mechanisms and instruments could be facilitated at EU level to mobilise energy efficiency investments.
- The upcoming revision of the Energy Efficiency Directive is a renewed opportunity to steer and boost energy efficiency policies in the right direction. However, stronger commitment of Member States is required to effectively reach EU energy efficiency targets.

The impact of energy efficiency (as well as self-consumption) must be adequately managed to avoid endangering the stability and sustainability of the energy system.

### 3.2 ACCELERATING THE UPTAKE OF DSR TECHNOLOGIES

There is a need for assessing the realistic potential of demand side response, as rightly recommended by the Smart Grid Task Force Expert Group 3. It is necessary to differentiate between the technical and the economic potential, which in turn must be linked to user acceptance.

Demand response value must be market-based in order to avoid any extra costs to the system, customers and other actors.

Demand side response is a competitive activity and requires good market design, as outlined in the previous section. Roles and responsibilities must be clearly defined, exposing every actor to all the costs that their activities impose on the system.

In this context, we support the ongoing work in the newly established platform on TSO-DSO interface co-organised by ENTSO-E, EDSO, CEDEC, GEODE and Eurelectric, and promote any kind of broad cooperation between stakeholders that could accelerate the uptake of demand side response technologies in the market. The European Energy Industrialists are prepared to deliver on the European Commission's request to help organise a conference on the acceleration of smart grids that will reflect this wide representation of stakeholders.

Electrification of transport, heating and cooling will contribute to overall energy efficiency, while adding sources of flexibility to the system, and so could be promoted.

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## 4. DECARBONISATION OF THE POWER SECTOR

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A reinforced EU ETS should be the key instrument of a cost-efficient transition to a low-carbon European economy. We support the European Parliament's proposal to implement the ETS market stability reserve already in 2018 and to prevent that returning back-loaded and unallocated allowances undermine the ETS towards 2020.

An appropriately reformed ETS contributes to reduced costs of capital for RES investments. This is key for achieving the EU's ambition to become the Number One in RES, while having competitive and affordable electricity prices. Moreover, a more investable EU ETS price would contribute to more investment in flexibility and innovation in general.

The EU's 2030 energy and climate change policy framework should facilitate regional cooperation, particularly with regard to the deployment of renewable capacities and the demand/supply balance. This is the only way to a greener electricity system and to cost-efficiently ensure generation adequacy/security of supply.

Any framework should recognise all decarbonising technologies – while respecting the competence of Member States to decide their energy mix – in order to create a diverse and flexible energy mix capable of delivering the reduction in CO<sub>2</sub> emissions. Subsidies to mature technologies and political bias towards particular solutions, e.g. small vs. large-scale generation, should be minimised, and market-based investments should be facilitated.

The European Union should continue to develop measures to facilitate the development of the network infrastructure and interconnections necessary for the connection and integration of low-carbon energy sources. Adequate transmission infrastructure is key to achieve Europe's climate policy goals, and this should be reaffirmed in the forthcoming climate policy negotiations in Paris, as at any other occasion possible, by the European institutions and the national policy makers. The governance framework set up for the implementation of the EU 2030 energy and climate goals should propose clear objectives for enhancing public support, to be regularly reported by Member States.

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## 5. INNOVATION AND RESEARCH

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Research, development, demonstration and deployment are key to keeping the European energy infrastructure efficient and cost effective and to keeping Europe in the forefront of energy technologies development. Research particularly depends on public funding, as it does not attract sufficient private funds. The Strategic Energy Technology (SET) plan needs to be reinforced accordingly.

Europe must have the leadership in technologies and innovation on energy and climate to develop a competitive advantage in smart grids, smart equipment and foster growth and employment. Technological breakthroughs need to be encouraged in this regard. For example, pilot projects could help the EU gain experience in more flexible use of electricity in the heating system; a low-hanging fruit for flexibility improvement.

Innovation is necessary in diverse areas including power technologies, storage integration, grid architecture, network operation, market design and asset management. Successful implementation of the results requires joint efforts of all actors including power producers, TSOs and DSOs, energy service providers, manufacturers, universities and research institutes, national and European policy-makers. In particular, an appropriate regulatory framework that accounts for the inherent risk of research activities has to facilitate the necessary investment of TSOs and DSOs.

Carbon Capture and Storage (CCS) stakeholders view CCS as a deployment challenge, not an innovation challenge – the language employed by the Commission suggests that a more collaborative and facilitative discussion could now take place between the Commission and Member States that do see a role for CCS as to how the technology can be commercialised to enable it to compete alongside other low-carbon technologies.

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### WHAT IS THE ROUNDTABLE OF EUROPEAN ENERGY INDUSTRIALISTS?

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THE ROUNDTABLE IS MEETING ANNUALLY TO CONTRIBUTE TO THE DEVELOPMENT OF AN INTERCONNECTED GRID WITH EMPOWERED MARKETS AND CONSUMERS. THE ROUNDTABLE OF EUROPEAN ENERGY INDUSTRIALISTS CONSISTS OF CEOs FROM LEADING EUROPEAN ENERGY COMPANIES AND TSOS (ELIA GROUP, MAVIR, NATIONAL GRID, RTE, STATKRAFT, STATNETT, SWISSGRID, TENNET, VERBUND). THE ROUNDTABLE HAS MET SINCE 2011 AND IS HOSTED BY STATNETT.