

// **JOINT MESSAGES**

EUROPEAN ENERGY INDUSTRIALISTS' RECOMMENDATIONS

INTRODUCTION

The Roundtable of European Energy Industrialists welcomes the integrated approach of the Energy Union strategy and the recently published communications on a new deal for consumers and market design.

The costs to develop the European electricity market - in line with the EU's energy and climate targets for 2020/2030 - represents an unprecedented investment challenge for the next decade.

Our market design needs to be up to the challenges of securing investment for reliable electricity supply, while ensuring affordable and competitive energy prices, and becoming the world leader in renewable energy.

Integrating renewables into the system, finding cost-effective ways to incentivise back-up capacity, and encouraging consumers to become active market participants will need innovative thinking from policy-makers, regulators, system operators and market actors.

We call on the European Commission to outline a clear vision of where we want to go to, and deliver the tools for market participants to ensure that we get there in the most cost-effective way for consumers. This means to create a level playing field for all technologies, as only fair competition across borders will deliver the mix of decentralized and centralized "ingredients" of an electricity system meeting the Energy Union objectives. ■

DEVELOP AN EFFECTIVE LEVEL OF REGIONAL COOPERATION TO ENSURE SYSTEM SECURITY

RECOMMENDATION:
**IMPROVE THE FRAMEWORK FOR THE
OPERATION OF EUROPEAN GRIDS**

In the interconnected European electricity system, ensuring security of supply requires cooperation across borders. To ensure this cooperation takes place efficiently, TSOs voluntarily developed Regional Security Coordination Initiatives (RSCIs),

such as CORESO and TSC, to better coordinate secure system operations in a market with large-scale regional power flows. However, further incremental steps would be needed to increase operational coordination. For this reason, all European TSOs in ENTSO-E recently agreed to participate in at least one RSCI, which would need to perform a minimum set of functions. The implementation is ongoing.

With regards to the European Commission's question, whether "Regional Operation Centres", which would take over part of TSOs responsibilities for operations and security of supply, would improve cross-border system operations, there is no evidence that such a measure would bring additional benefits for security of supply. On the contrary, there is a high risk that such a centralised system would create additional costs and red tape, and there is no assurance that it will maintain the same level of system security. The benefits of any change must outweigh the cost to consumers. Considering the fact that the current system is able to ensure an adequate level of security, we are convinced that such a development would be thus a disproportionate action.

Whilst there is scope for RSCIs to extend their services to TSOs, for example as regards greater monitoring, exchange of information, analysis and decision support, TSOs must remain responsible for the ultimate decisions in operational planning, as well as for real time operation, which is in line with Member State's responsibility for security of supply. The European electricity market is based on the concept of zones of responsibility resulting in mutual trust which allowed for further market integration. The current system, in which the TSOs have the operational responsibility, is vital to ensure the availability of local grid knowledge in critical situations and in the case of bigger incidents or emergencies, efficient and effective grid restoration by having several coordinated teams of experts in Europe to manage the restoration together.

Today cross-border cooperation is also hampered to a large extent by non-harmonised distributions of responsibilities and differing national rules, regulations and procedures in the different Member States. The implementation of network codes and guidelines will enable further cross-border coordination of system operations. However, it remains crucial that Member States and NRAs step up their regional cooperation in order to achieve a closer convergence of national frameworks.

RECOMMENDATION: DEVELOP A COMMON UNDERSTANDING OF SECURITY OF SUPPLY AND ADEQUACY

In a highly interconnected system, security adequacy can no longer be assessed from a closed national perspective, without taking into account the possibilities provided by interconnections. In parallel, the strong development of intermittent RES generation enhances the impact of meteorological uncertainties on the system. For these two reasons, a common methodology for the assessment of adequacy risks is required. Such a methodology is currently being generalized by ENTSO-E.

Adequacy assessments need to be conducted at three levels, national, regional, pan-European, which all have an interest:

- at the national level, carried out by the national TSO(s) only, taking into account the European system at least for the neighbouring countries. In this case the representation is very accurate for the country and immediate surroundings, but may be less well informed beyond. It guarantees a faithful representation of the precise system risks.
- at the regional and pan-EU level, the global consistency between the levels is ensured, but the detailed model and hypothesis for each country can be challenged and the complexity of calculation is an obstacle to detailed analyses. Such regional and pan-EU level studies, based on a common methodology, foster mutual understanding and exchange of experience and data between TSOs.

Adequacy assessments at these different levels complement each other. Their roles should not be confused and regional and pan-EU studies are not to be interpreted as a transfer of responsibilities. The responsibility of security of supply today is national.

It is crucial that each Member State and NRA:

- develop an adequacy study at national level to support their decision making;
- can choose their target level of security of supply (security criteria);
- may intervene to ensure compliance with this target level;
- maintain their ability to address national challenges typically linked to local specificities.

The Roundtable therefore recommends that common adequacy methodology is used, but that some national or regional freedom is kept on the definition of security criteria, while ensuring transparency for all stakeholders. ■

IMPROVE THE MARKET DESIGN TO ENSURE ADEQUATE INVESTMENT

Attracting the investments required for achieving the EU 2030 energy and climate objectives requires a robust EU Market Design that provides a healthy balance between investment security and competition. A principal ingredient for an energy system achieving all Energy Union and 2030 objectives is an ETS that is truly meaningful for investments. It should be underpinned by a legislative framework that improves competition by reducing explicit and implicit subsidies on EU and national level.

More variable generation creates challenges for investors and for the electricity system in matching demand and supply, and thus ensuring operational security, at all times. One concern is whether sufficient capacity will be installed in the system (adequacy), and the second concern is whether this installed capacity will be sufficiently flexible. Flexibility is a characteristic of capacity and can be defined as the ability to make the capacity available on the market without constraints.

RECOMMENDATION: GIVE A PRICE TO FLEXIBILITY

Flexibility can be provided by flexible generation, storage, and demand side participation. The nature of the flexibility needs can largely differ according to the national energy mix and consumers' profile. Markets should provide adequate price signals and remuneration to participants to highlight the value of flexibility and enable providers to compete in providing flexibility services efficiently. Markets would then provide incentives to providers to invest in improving the flexibility of their capacity whenever investments are expected to pay off through higher revenues in the energy market.

Some major prerequisites must be fulfilled in order to allow markets to value flexibility:

- Real time pricing and scarcity pricing should be allowed, as they are a market signal indicating a lack of flexibility.
- All actors should be given full financial balance responsibility.

- Intraday and balancing markets should be further developed and open as long as possible. Cross-border trade should be allowed on all market time frames.

If all actors are given full financial balance responsibility, also the less flexible units are exposed to market prices and they may choose to hedge their risk linked to their balance responsibilities by buying products from sources of flexibility. If so, the “hedging” products would make the value of flexibility more visible and could increase the value of flexible assets.

All the above would contribute to integrating renewables into the market as:

- the ability to trade in well-developed intraday and balancing markets would allow more accurate forecasting (the shorter the time between the forecast and the delivery, the more accurate the forecast of the production), and
- renewable energy producers would be able to manage the risks of variable output e.g. through contracting for “hedging” products with flexible providers.

RECOMMENDATION:

ENSURE FAIR COMPETITION

Optimizing costs for the energy transition is only possible in an integrated cross-border perspective on generation, transmission and demand, ensuring fair competitions between actors and technologies. New initiatives and National Energy and Climate plans should consider the following:

- Support schemes and national interventions should not distort the market functioning and should be harmonised as far as possible at least at regional level, while always keeping in mind the overall system optimisation perspective.
- When identified as the best solution to cover adequacy issues, public intervention should be strongly coordinated at regional level. For example, where they have been identified as a necessary remedy to market failure or as the right level to ensure security of supply, 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.
- Subsidies for demand side response and regulatory intervention should not distort competition for flexibility.
- For self-consumption, the consumer business case currently is largely based on avoiding network charges, levies and taxes which have to be paid by others, while still benefitting from the security of supply provided by the grid. Grid tariffs for self-consumption should therefore not provoke investments that increase costs for society.
- The impacts of adapting network charges to “stimulate” DSR and self-consumption have to be evaluated extremely carefully from an energy system perspective. ■

ADAPT RETAIL MARKETS TO KICK-START DEMAND SIDE PARTICIPATION

RECOMMENDATION:

CREATE ADDED VALUE FOR CONSUMERS BY INCREASING COMPETITION IN THE RETAIL MARKET

Increased use of real time (smart) metering and market price data will help consumers to better understand and actively manage their consumption. In addition, enhanced product legislation could incentivise equipment manufacturers to develop and offer smart products which provide added value for consumers.

If there is a business case for demand side response (DSR), electricity retailers or aggregators will offer contracts to consumers with dynamic pricing driving consumer load control.

Fair competition for DSR will then reveal its economic value for the energy system. Artificial interventions such as giving selected players, e.g. aggregators or DSOs, privileged access to flexibility from DSR, however, will lead to inefficiencies and should be avoided.

RECOMMENDATION:

ALLOW ALL ACTORS TO BENEFIT FROM DEMAND SIDE FLEXIBILITY

Market parties should be able to offer ancillary services to TSOs (and DSOs), enabling a closer link between wholesale, balancing and retail markets. It is important to clarify and harmonise roles and responsibilities in the market. Same principles regarding neutrality and vertical integration should apply for the delivery of any service.

RECOMMENDATION:

ENSURE DATA SECURITY AND FAIR ACCESS TO DATA

With the development of smart meters, demand response and decentralised production, there will be an increasingly big amount of data. These data will be essential to ensure the security of the system and the data exchange between actors will develop accordingly. It is therefore essential to develop an approach to handle the data, which ensures fair competition and data security, and which respects the rights of consumers.

The Roundtable considers that a central data handling system is the best solution to ensure correct settlement data, transparency of Balance Responsible Parties and retailer/aggregator information for a given load. TSOs and DSOs should also have access to metering data. Several governance models are possible and should be assessed at national level respecting the guiding principles developed at the European level such as neutrality, easy access, non-discrimination, data safety and security, proven cost efficiency. Data handling could be done at the level that provides the most efficiency, including TSOs, DSOs or a third party, providing guarantees of independence and neutrality. It is essential that each actor's role and responsibilities are clearly defined.

In terms of cyber security, the Roundtable recommends that Europe adopts a common approach: in particular, common minimum standards should be defined and enforced at the European level. Protection against cyber threats is nevertheless to remain – at a first level – a responsibility within each company. ■

ENSURE THAT THE REGULATORY FRAMEWORK REMAINS IN LINE WITH THE RESPONSIBILITIES

RECOMMENDATION:

APPLY A GOVERNANCE SYSTEM THAT FACILITATES THE DEVELOPMENT OF REGIONAL MARKETS

The model of cooperation of TSOs and NRAs, and the roles of ENTSO-E and ACER need to reflect, facilitate and support the development of regional markets and the eventual integration of these, directing resource and effort to where maximum consumer benefit can be realised.

Under Regulation 713/2009, ACER already has an obligation to provide a framework for regional and community-level cooperation between NRAs. It would be desirable that ACER plays fully and more proactively its central role, which is to overcome the disagreements between regulators on cross-border issues. The greatest consumer value will be realised by:

- facilitating and fostering NRA cooperation at the regional level (for example, as has been demonstrated in the Pentilateral Forum);
- facilitating and supporting the development of harmonised regional adequacy assessments, and governance arrangements for 2030 deliverables;
- designing a framework to ensure that regional developments are mutually compatible with further future integration.

At this stage, we do not regard as a highest priority to furnish ACER with the power to carry out regulatory functions at the European level. We consider such power should remain in the hands of the co-legislators and should not be delegated to an Agency.

RECOMMENDATION:

DEFINE THE NETWORK CODE AMENDMENT PROCESS

It is suggested that reviewing the roles of ENTSO-E and ACER would provide an opportunity to review the Network Code development process. The vast majority of Framework Guidelines and Network Codes have now been delivered, so a major re-writing of the network code development process at this stage would not be the most efficient application of resources. Any review should take the form of a lessons-learned exercise, taking stakeholder feedback into consideration, with identification and remedial actions for major impediments to the process.

Regarding the process to amend Networks Codes and Guidelines, it is for now not defined. It should be developed, with ENTSO-E having a clear and important role in the process, in close cooperation with ACER and all relevant stakeholders. ■

INVESTMENT IN THE ENERGY SYSTEM AND RESEARCH

To stimulate investments in grids and generation, a clear and stable regulatory framework is needed that can provide for fair competition and an open whole sale market accessible to all participants. As mentioned in the section on market design above, 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.

Besides, a main priority must be investments in grid development and integration of an increasing amount of renewables in the system. The latter requires a fit-for-purpose grid on all voltage levels to connect new generation facilities with the areas where it is needed. Smart grids and latest control and IT systems are also needed to optimise the operation of existing assets, to forecast, monitor and control distributed renewable energies and to manage load response. To get European and national infrastructure projects of the ground, the following additional recommendations should thus be acknowledged.

RECOMMENDATION: REDUCE THE ADMINISTRATIVE BURDEN FOR INFRASTRUCTURE DEVELOPMENT

As a general principle, any new legislative procedures should continue to reduce administrative burden for infrastructure development. Investments procedures need to be shortened and simplified. Regulatory regimes and public funding should be fit to help TSOs financing the corresponding steep rise in capital expenditures.

The Roundtable also suggest that ACER could assess the various existing national regulatory frameworks to identify how these contribute to attract investments in the national and local energy system. Results could be used to develop best practice guidance for regulators.

RECOMMENDATION: PROMOTE STRONGER POLITICAL AND STAKEHOLDER ACCEPTANCE

One third of the investments of pan-European significance identified as being needed for Europe are being delayed due to a lack of public acceptance. As delays in projects are very costly for society, more measures have to be undertaken to increase public acceptance for infrastructure projects. We believe that the EU can help by providing consumers with impartial information, highlighting the potential of low carbon energy and the need for grids, and by stimulating a public debate in general.

RECOMMENDATION: SUPPORT INVESTMENT IN RESEARCH AND DEVELOPMENT

The 5th pillar of the Energy Union – on Research – is key to keep the energy system efficient, innovative and attract investments. Energy programmes developed under the EU's Horizon 2020, however, does not cover urgent research needs such as on market design, smart grids, decision support systems and asset management. In addition, European research projects have become very complex to manage with large administrative and communication requirements. We would recommend to include projects of smaller and medium scale dealing with existing, possibly short-term, challenges that need to be solved as soon as possible. ■