



*European Commission Consultation on the New Electricity Market Design:
Friends of the Super Grid Official Reply*

1. EU-wide interconnected electricity market

1.1. Cross-border markets

Prices:

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?

The internal energy market needs to provide efficient price signals that rewards flexibility. Flexibility in the market is key both with regards to the technologies (storage, interconnections, demand response, renewables, etc.) as to how the market needs to be adapted (products, gate closure times, consumer involvement, etc.). The new market design should remove existing market barriers towards the development of more flexibility.

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?

No comments.

Balancing:

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

FOSG strongly encourages any efforts to create a strong, integrated and liquid cross-border balancing services across the EU. EU-wide competitive balancing markets will significantly contribute to system's reliability and will reduce system costs. Coordinated balancing markets across the EU, including larger balancing areas, will optimise the use of existing assets and make the integration of renewable cheaper.

If well designed, integrated balancing markets will also contribute to avoid the introduction of capacity remuneration schemes, as balancing service provision will result in larger markets for conventional generation. All potential sources of flexibility should be incentivised to participate in balancing services (interconnections, storage, demand response, conventional generation and renewables).

It is important to notice that integrated balancing markets will only work efficiently if European grids are well interconnected. It is therefore essential to work on accelerating the implementation of coordinated competitive balancing markets across markets while also building a strong Pan European-Grid on time.

Intraday:

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

The internal energy market is a no regret option. Its implementation should be accelerated. FOSG strongly encourage any efforts to create a strong, integrated and liquid cross-border intraday markets across the EU. As mentioned in the previous section, any actions carried out by the EC in order to accelerate the implementation of coordinated intraday and balancing markets, should also be accompanied by actions to build more interconnections between the national markets when needed.

Intraday and balancing markets will only work efficiently if there is enough transmission capacity available for market agents.

Pan-European interconnections are essential and need to be complemented by a smart and intelligent national transmission and distribution grid. This requires a revision of the Energy Infrastructure Regulation (Regulation 347/2013) that aims at finding a solution for the following existing gaps:

- ✓ Lengthy permitting processes: It is urgent to accelerate permit-granting processes for interconnections by reducing and simplifying the multiple administrative requirements in place in different countries.
- ✓ Complex and incompatible cross border regulatory frameworks: A stable and attractive framework for the financing of the new interconnections should be established. This can be achieved by gradually developing a harmonised regulatory environment across Europe to foster the development of new grid infrastructure.
- ✓ Insufficient incentives to develop the technologies of the future: There is a strong need to introduce effective incentives for the development of innovative grid technologies. This will develop European industry and translate into export potential and job creation.

Long-term contracts:

Q5: Are long-term contracts between generators and consumers required to provide investment certainty to new generation capacity? What barriers prevent the development of long-term hedging products? Is there a role for the public sector?

FOSG considers that the implementation of long-term contracts is an important aspect that should be further discussed and debated within the framework of the new market design.

Present European market mechanisms were first implemented in the period from 1996-2000 and have been continually evolving. However, in essence they have not significantly deviated from the initial design, that is, a day-ahead market with hourly prices for energy, a design most appropriate for thermal power generation. Generation from renewable energy sources has not fully entered into this market, as these generators have generally been remunerated at an energy price that was fixed by national Governments for the lifetime of the generator (RES support schemes). This price has been and still frequently is independent of the day-ahead market price and has enabled the developer of the renewable generation project certainty over future income during development of the project.

At the same time and despite all efforts to create a single European electricity market, the levels of interconnection between member states remains sub-optimal evidenced by significant price differentials between markets. In order to reduce energy prices for consumers increased levels of interconnection are required to facilitate the movement of energy across Europe.

An additional component to the current market design is therefore required, which incentivises the necessary investments in infrastructure to support the development of a single integrated European market and the evolution of a pan-European network or Supergrid. This additional component should support market decisions, whilst avoiding providing market power or advantages to any one particular generation technology.

The implementation of a very long term transmission capacity market would help support effective market design that would incentivise the construction of new generation in the most favourable locations whilst maintaining security of supply for member states and safe, reliable network operation. This framework would facilitate the funding of new generation projects enabling the market to determine the most economic mix of generation technologies to meet member state requirements.

Currently in Europe it is possible to secure cross border transmission capacity up to a few years in advance of the required period through auctions for Physical Transmission Rights (PTR) or Financial Transmission Rights (FTR) for existing congested interconnectors. However, auctions for transmission capacity for only a few years in advance do not address the needs that developers of new generation have when trying to secure project financing. In establishing a robust business case for the development of

new generation, certainty over access to certain markets and hence certainty over income is an immense benefit. With the current limit of 3 year certainty over transmission capacity, this limits either the market in which a developer can sell its energy in long term contracts or the certainty of income for the developer. Moreover, a limitation of the current market design with current PTRs and FTRs auctions up to a maximum of 3 years is that there are fewer economic signals for infrastructure development.. This means that the future developments of networks are based on market intelligence on the likelihood of realisation of contracted projects and perhaps result in a higher risk of stranded asset.

The introduction of a very long term capacity market would provide developers with the ability to offer long term contracts to users in a wider market thereby providing greater certainty of future income. Generators in one member state who wish to sell their energy production to another member state will greatly benefit from the ability to acquire long term transmission rights, particularly if these generation projects are funded through project finance. In order for such a generator to get a bank loan it needs a power purchase agreement with its client and also to demonstrate that it will be able to transport its energy from the country of origin to the other member where its client is located during the entire term of the purchase agreement. The introduction of a very long term capacity market would enable the generator to be able to meet these criteria, facilitating development of a robust, positive business case. This would be of benefit to both developers and users.

For all generators active in the market, the expansion of the market in which a generator is able to sell its energy brings increased opportunity and competitiveness. The ability of a generator to secure long term capacity provides opportunities to offer new products to users, which they would not previously have been able to and for users to access a wider pool of generators to purchase from. This increased competitiveness should have a positive impact on end consumer prices.

The debate on the long term contracts should not seek change the current market structure, but it should enhance the existing market through the addition of arrangements to allow market participants to secure capacity over the very long term (up to 20 years). A long term capacity market (probably in the form of auctions for transmission capacity) would deliver clear economic signals that would facilitate efficient decisions in transmission and generation investment. A period of up to 20 years is justified by the fact that new generation projects are increasingly delivered under “Project Finance” structures. These structures are often based on a 20 year timeframe (linked to the expected life of a generator) and require clear demonstrable business cases to secure funding. Very long term capacity contracts could therefore be implemented and would not necessarily be in contradiction with the current EU legislation or the EU Electricity Target Model. The only need is, then, willingness by the responsible institutions (EC, ENTSOE, ACER, NRA, member states) to organise them.

1.2. Infrastructure for a functioning market

There are no specific questions referring to infrastructure and interconnections in the Public Consultation, however the EC Communication makes a clear reference to interconnections. FOSG comments on how to accelerate interconnection development are therefore included as part of the answer to the questions referring to the functioning of the internal energy market.

1.3. Adapt market design to RES

Taxes:

Q6: To what extent do you think that the divergence of taxes and charges¹⁰ levied on electricity in different Member States creates distortions in terms of directing investments efficiently or hamper the free flow of energy?

No comments.

Market signals for RES:

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

No comments.

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?

No comments.

RES support schemes:

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)?

An effective market design must include a coordinated approach to the development of renewable energy sources (RES) across Europe. This will deliver substantial gains by ensuring well-located and least-cost deployment of RES.

FOSG strongly supports the promotion of harmonised and compatible RES support schemes at EU, including common grid access rules and common price setting mechanisms. A revised RES Directive should include measures to overcome barriers that prevent member states from using cooperation mechanisms for the deployment of RES.

The development of RES capacity should be optimised across the EU so that the best sites are exploited first. A European Supergrid would facilitate this through a pan-European grid that integrates energy sources where they are prevalent and transports power to areas of high demand. A Supergrid would therefore help the EU achieve climate and clean energy ambitions in a cost-effective way.

The lack of compatible regulatory practices across the different EU Member States is inefficient, makes RES development more expensive and creates an important barrier for the development of a pan-European grid. An example of this can be found in the North Sea. It is estimated that the benefits of increasing cooperation in the North Sea to jointly plan and develop the offshore wind and transmission infrastructure could translate into annual savings of € 1,5 - 4,5 billion by 2030 (see: http://ec.europa.eu/energy/infrastructure/studies/doc/2014_nsog_report.pdf).

A coordinated grid design is more cost-efficient than building individual connection lines for the wind parks and separated interconnections next to these lines. Development of RES should go hand-in-hand with grid development. However the national RES support schemes implemented by the countries of the North Sea region are still incompatible and represent a barrier to cooperation (see: http://www.northseagrid.info/sites/default/files/NorthSeaGrid_SynthesisOfFindings.pdf). FOSG would like to see concrete examples of regional cooperation for the development of RES and supports the proposal of the EC to develop a concrete framework that establishes the rules for cross-border participation in support schemes.

1.4. Linking wholesale and retail markets to deliver a new deal for consumers

Demand response:

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.)?

No comments.

2. Regional cooperation for an integrated system

2.1. Cooperation between System Operators

Network operation:

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?

No comments.

2.2. Governance

ACER:

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?

The most efficient way to deal with the increasing challenges of the energy sector in Europe is to develop solutions that consider a European approach rather than an approach that purely focuses on national issues of the different member states. Removing inconsistencies that exist in different markets should be a first priority.

The current divergence in regulatory practices and the lack of regulatory stability across the different EU member states create an important barrier for the development of the internal market. An integrated continent-wide system requires a truly harmonised and collaborative European regulatory environment. This can only be ensured by increasing the level of coordination among the different national regulatory authorities. ACER should play a key role in this European approach towards removing inconsistent national regulations. To ensure this, ACER should have adequate powers and internal recourses to ensure that the national regulatory frameworks that have an impact in cross border issues gradually converge. For this, ACER should become more independent from the national regulatory authorities and should be given efficient enforcement powers when it comes to regulating cross-border related issues. ACER should also be equipped with enough internal resources to make sure that it can carry out its mission.

FOSG considers that a truly harmonised and collaborative European regulatory environment will contribute to accelerate the development of the needed interconnections. The current excessive duration required for the approval by the various national authorities demonstrates the importance of this. FOSG supports the development of efficient and stronger regulatory collaboration with the aim of reducing administrative burden for the development of projects of common interest.

One area where FOSG considers that ACER could have a more active role concerns the development of new interconnections. Article 16 of *REGULATION (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity* (The Regulation) sets out the purposes for which any revenues resulting from the allocation of interconnection shall be used, which includes “*increasing interconnection capacities through network investments, in particular new interconnections*”. It would be advisable that ACER monitors if these funds have been used in accordance with the requirement of the Regulation. This would allow ACER to provide an overview on how much of the congestion rents have been used for reinforcing or further developing interconnections at European level and to propose solutions if it is found that congestion rents are not being used as required by the Regulation

ENTSOE:

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

FOSG believes that both regular and transparent processes are needed in order to adequately reflect technical progress, for example in the development and implementation of Network Codes and the TYNDP. ENTSO-E and TSOs should act with a clear European focus.

DSOs role and data management:

Q14: What should be the future role and governance rules for distribution system operators? How should 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?

No comments.

Q15: Shall 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?

The design of network distribution tariffs (for using the grid and related services) should be adapted in a way that reflects the increasing share of self-supply by consumers. Network tariffs based on consumption, which are currently applied in most member states, will over time challenge the maintenance and expansion of power grids in Europe.

The increasing development of embedded generation is already having a significant impact in the grid, both at the level of distribution but also at transmission level. This impact will only increase as decentralised renewable generation increases. It is therefore essential to ensure that transmission and distribution tariffs are designed to ensure that new generation units are connected in the most efficient grid locations.

Power Exchanges

Q16: As power exchanges are an integral part of market coupling – should governance rules for power exchanges be considered?

No comments.

3. European approach to security of supply

3.1. Harmonised power system adequacy

Q17: Is there a need to develop a European harmonised methodology to assess system adequacy?

At present, measures taken to ensure the system's security of supply are mainly based on a national perspective. The development of an optimised power system across Europe where resources are used efficiently will require a shift from this national focus towards a more consistent regional methodology that will ultimately lead to a more coherent and efficient European system adequacy approach. This approach would allow a more efficient use of existing resources.

A European unified metric for security of supply and system adequacy assessment methodology should be adopted and defined in the European legislation

In order to be efficient, this unified system adequacy assessment methodology should consider all sources of capacity including interconnections, demand response, storage and renewables.

Q18: What should be the appropriate geographical scope (national, regional, EU-wide)?

FOSG considers that initially the methodology should be at least regional, as a first step towards a full European geographical scope that should be the final objective.

Q19: Would an alignment of the currently different system adequacy standards across the EU be useful to build an efficient single market?

The alignment of system adequacy standards will help to ensure that national decisions regarding security of supply issues remain consistent and do not distort the internal energy market. The development of such standards is therefore essential to build an efficient single market.

Such an approach will also be extremely useful in facilitating an efficient and coordinated pan-European network planning. The needs for expanding and upgrading the existing networks increase, and the necessity for a pan-European network or Supergrid becomes more and more evident. More cooperation and sharing of information among member states and TSOs will help ENTSO-E to develop a TYNDP based on system adequacy assessments that take into account the synergies within the regions and an optimal use of European assets. TSOs and ENTSO-E's should be given enough tools to carry out a coordinated planning the European networks that results in an efficient evolution of the transmission system. In that respect generation development should be better aligned with transmission development with an anticipated view of the future locations and installed capacities in order to allow a timely deployment of the transmission grid.

3.2. Capacity Remuneration Schemes

Q20: Would there be a benefit in a common European framework for cross border participation in CRMs? What should be the elements? Is there a benefit in creating CRM reference models? What should they look like?

If implemented the CRM should be designed taking into account the following issues:

- ✓ Limit in as much as possible market distortion
- ✓ Coordinated at least regional level
- ✓ Compatible across borders
- ✓ Allow for effective cross border participation
- ✓ Should provide enough visibility for investors but making sure that the CRMs has a temporal character, i.e. it can be easily stopped if the initial adequacy gap problem is resolved.

Adequate CRMs design models should be established and regulated at European level.

Q21: Should the decision to introduce CRMs be based on a harmonised methodology for system adequacy assessment?

FOSG is in favour of taking a cautious approach towards the implementation of CRMs. A strong internal energy market is the most efficient option to deliver a sustainable, competitive and secure power system. An EU defined standardised system adequacy assessment should be carried out before implementing national or regional CRMs. CRMs should be considered as a solution to system adequacy problems only after having assessed all other potential options, including cross border available sources of capacity. Only for those cases where a gap is identified a CRM should be considered and should be designed taking into account the issues outlined in the previous question.