

The recasts of the Electricity Regulation and the Electricity Directive: our six key messages

Brussels, 9 August 2017 | As set out in our previous position paper on the proposals for a recast of the Electricity Regulation and Directive, Europex welcomes the recognition of the central role of energy exchanges and the importance of strong market price signals in all Member States. However, we believe that a number of aspects can be strengthened in order to ensure well-functioning, liquid, efficient and transparent electricity markets in Europe. In the following, we highlight six key areas where we believe amendments to the Electricity Regulation recast proposal are necessary.

- 1. Full market integration of renewables (Art. 4* & Art. 11):** Europex supports the full integration of renewables into the electricity market. We share the view set out in Art. 4 that all market participants need to bear full balancing responsibility. Unlike the Commission proposal, we therefore strongly recommend removing any exemptions from this principle. If small RES producers are unable to fulfil their balancing responsibility, they can delegate the task to a third party of choice to minimise the impact on the market. Hence, there is no need for exemptions.

In the same vein, allowing priority of dispatch for some market participants, but not others, fundamentally distorts the functioning and the efficiency of the market. We therefore support a market-based and non-discriminatory approach to dispatching of power generation facilities and demand response (Art. 11) and call for a removal of all provisions for priority of dispatch.

- 2. Bidding zone configuration and review (Art. 13):** We urge for a clarification of the process leading to potential bidding zones reconfigurations (Recital 14; Art. 13.3). A bidding zone review should explicitly include the full involvement of all key market stakeholders, including spot market operators and long-term forward and futures market operators. Given the complexity of the issue and its multiple consequences, it is important to develop a comprehensive understanding of possible consequences for the underlying spot and derivative markets.

According to the subsidiarity principle, Member States are best placed to define bidding zone configurations (Art. 13.4) at national or regional level with the technical assistance of TSOs. If, for example, national regulatory authorities and the concerned TSO(s) cannot agree on a configuration, only then should the Commission take a final decision. We also urge clarification on the definition of bidding zones in relation to imbalance price areas (Art. 13.2).

* All references to recitals and articles refer to COM(2016) 861 final/2: Proposal for a Regulation of the European Parliament and of the Council on the internal market for electricity (recast).

- 3. Excluding price caps (Art. 9):** Europex welcomes the Commission's proposal to explicitly exclude the possibility of introducing price caps in the various market time segments. Any price limitations constitute market distortions hampering the efficient functioning of energy markets. Any existing direct or indirect price caps must be phased out. This is equally important on the retail side - regulated consumer electricity tariffs should be abolished across the EU. However, technical limits on maximum and minimum clearing prices are the only necessary exception to this principle. For Single Day-Ahead Coupling and Single Intraday Coupling, such technical limits are set out in the Congestion Management and Capacity Allocation (CACM) Regulation (Art. 41 & 54). This reality should be clearly recognised in the Electricity Regulation.
- 4. Reinforcing the importance of long-term markets (Art. 3 & Art. 8):** Long-term forward and futures markets are an essential tool that contribute to the management of the energy transition and the decarbonisation of the power sector. Future contracts represent over two thirds of wholesale power transaction volumes in the electricity market in Europe. We believe that the Regulation should explicitly recognise the important role that long-term markets and products play in the electricity market. However, it is equally important to leave sufficient room for product innovation and new developments. The market is best placed to adapt its hedging contract offer to the needs of the market players in a fair and efficient manner.
- 5. Capacity mechanisms as a very last resort (Art. 20 & Art. 26):** Europex supports Rapporteur Kariņš' approach to capacity mechanisms. They should only serve as a very last resort and when there is a clear structural long-term lack of capacity with no possibility to overcome this situation other than through this type of support. Before applying capacity mechanisms, it is important to take into account existing interconnection capacities, installed capacity and generation in neighbouring regions and Member States (Art. 20). In this context, a comprehensive trans-regional approach to the assessment of adequacy, eventually leading to a pan-European adequacy assessment, is a valuable step towards the further integration of EU energy markets. Any adequacy assessment needs to be based on transmission and generation capacity, while also considering demand-side flexibility.
- 6. Accepting and allowing third-party market operators (Art. 3.1, 5.10, 48.1 & 55.9):** Certain parties, such as imbalance settlement administrators, have already been recognised in the Network Code on Emergency and Restoration (NC ER) and the Electricity Balancing Guideline (EB GL) as 'third parties'. This is because of their expertise in their areas of responsibility and also due to the fact that not all grid services need to be performed by TSOs or DSOs, hence increasing competition and innovation. In order to align the Regulation with the recognition of third parties who perform certain network tasks and in this respect, recognise the existing arrangements within Member States, we propose a series of amendments: Art. 5.10 and Art. 48.1 should be modified in order to allow tasks or obligations otherwise entrusted to TSOs to be assigned to one or more third parties. All relevant stakeholders, explicitly including the third parties previously mentioned, need to be able to participate in important processes such as the drafting of Network Codes and Guidelines (Art. 55.9).

About

Europex is a not-for-profit association of European energy exchanges with currently 27 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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