

– Position Paper –

Electricity market design: Europex urges continued focus on robust market principles

Brussels, 5 February 2018 | Europex generally welcomes the Council’s General Approach on electricity market design (recasts of the Electricity Regulation and Directive, as published on 20 December 2017) which makes positive steps towards achieving more integrated, liquid and efficient wholesale electricity markets in Europe. Properly functioning energy markets, and the resulting reliable price signals constitute the most effective means to meet the challenges of an evolving energy sector and to deliver energy to European citizens in a reliable, affordable and climate-friendly way.

While there are some aspects which we believe could be further improved in the Council’s General Approach, we welcome clarity on fundamental principles in the draft recast of the Electricity Regulation such as free and efficient price formation on the wholesale market (Art. 9). As attention now turns to the European Parliament and the subsequent trilogue discussions, Europex calls on policymakers to maintain focus on establishing robust market principles necessary for the proper functioning of the wholesale electricity market in Europe. In this context, we would like to highlight the following topics which need further clarification:

1. Full market integration of renewables - Arts. 4 and 11¹
2. Bidding zone configuration and capacity calculation - Arts. 13 and 14
3. Capacity remuneration mechanisms - Arts. 8, 23 and 24
4. Over the counter (OTC) long-term hedging opportunities - Art. 3
5. Recognition of delegated operators - Recital 7a; Art. 2(2) ff; Art. 3(1); Art. 5(10)
6. Balancing Energy Gate Closure Time and Imbalance Settlement Period - Art. 7(1) and 7(4)
7. Flexibility for market operators to develop products that suit market needs - Art. 6(3)
8. Electricity supply price regulation - Art. 5 of the draft Electricity Directive²

¹ Unless otherwise indicated, the specific articles mentioned in this paper refer to the Council’s General Approach to the draft Electricity Regulation (published on 20 December 2017).

² Here we refer to the Council’s General Approach to the draft Electricity Directive (published on 20 December 2017).

1. Full market integration of renewables – Arts. 4 and 11

The full integration of renewables into the market remains a priority, given the rapid and growing deployment of renewable energy. As a general principle, all market participants should be subject to full balancing responsibility, regardless of technology (Art. 4). We therefore strongly recommend removing any exemptions from this principle, particularly for new installations. If small RES producers are unable to fulfil their balancing responsibility, they can delegate the task to selected aggregators, or to a third party of choice. We continue to support a market-based and non-discriminatory approach to dispatching of power generation facilities and demand response (Art. 11). We also call for a gradual phase-out of priority of dispatch for renewable installations which were subject to priority of dispatch when commissioned.

2. Bidding zone configuration and capacity calculation - Arts. 13 and 14

Bidding zone configuration (Art. 13) has significant consequences for energy trading in all market timeframes. Any bidding zone configuration needs to take into account long-term structural congestion. However, it is also imperative to consider the impacts of any changes on the long-term stability of markets. Bidding zones which are stable over time and based on the underlying fundamentals of the energy market are vital in order to guarantee legal certainty for long-term investment decisions. In this context, we welcome the Council's position to take all appropriate measures to address congestions, to avoid reductions of cross-zonal trading capacity and to maximise cross-border trading opportunities. If eventually any split or merger of existing bidding zones is proposed, it must be thoroughly justified, and communicated well in advance, so as to reduce any potential negative effects on market functioning.

The amount of cross-zonal capacity made available to the market (Art. 14) is vital for short-term market integration, competition and efficient price formation. In this regard, ACER's market monitoring analysis³ shows that the limited amount of cross-zonal capacity made available by TSOs is a significant barrier to the further integration of wholesale markets.⁴ Europex calls for the minimum benchmark of 75% cross-border interconnection capacity to be further clarified and for a full impact assessment prior to the introduction of such a benchmark. It is crucial to have transparency on the share of interconnection capacity available for cross-border trade, as well as on the underlying reasons for any capacity restrictions. These are necessary first steps towards maximising cross-zonal trading capacity and the further integration of European wholesale energy markets.

3. Capacity remuneration mechanisms - Arts. 8, 23 and 24

Capacity remuneration mechanisms (CRMs) are a measure of last resort. A thorough European, as well as national, resource assessment must be carried out before Member States can decide to implement CRMs. If the European and national resource assessments indeed find a serious need for a CRM, then such mechanisms must comply with the strict criteria that have been set.

³ ACER/CEER Annual Report on the Results of Monitoring the Internal Electricity and Gas Markets in 2016, Electricity Wholesale Markets Volume, October 2017
acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Market%20Monitoring%20Report%202016%20-%20ELECTRICITY.pdf

⁴ ACER analysis shows that limitation of cross-zonal capacity is due to insufficient TSO coordination, and flows within the bidding zone and production/consumption being prioritised to the detriment of cross-zonal exchanges.

4. Over the counter (OTC) long-term hedging opportunities - Art. 3

The Council's General Approach maintains that over the counter long-term hedging opportunities (Art. 3) shall be guaranteed to allow market participants, especially renewable energy generators, to hedge against price volatility risks. However, such 'out of the market' arrangements risk drawing liquidity out of the general market, hampering the full market integration of renewable energy. Europex fully understands market participants' need for long-term price visibility, and therefore calls for a wording on over the counter contracts which fully takes into account the value which efficient markets represent for the sustainable integration of renewable energy.

5. Recognition of delegated operators - Recital 7a; Art. 2(2) ff; Art. 3(1); Art. 5(10)

Delegated operators have been recognised in the Council's General Approach (Recital 7a; Art. 2(2)ff; Art. 3(1); Art. 5(10)). The definition of delegated operators (also called third-party market operators) and their role in the electricity market is an important acknowledgement of existing arrangements in certain Member States, whereby specific tasks, such as imbalance settlement, are assigned or delegated to a non-TSO third party by a Member State or a Transmission System Operator (TSO). These delegated operators have already been recognised in the Network Code on Emergency and Restoration (NC ER) and the Electricity Balancing Guideline (EB GL) as 'third parties'. Europex published a paper in November 2017⁵ explaining these arrangements in more detail. It is important that the European Parliament now aligns with the Council's position to ensure clarity around these existing arrangements.

6. Balancing Energy Gate Closure Time and Imbalance Settlement Period - Art. 7(1) and 7(4)

The positions of the Council and the European Parliament on both balancing energy gate closure time and imbalance settlement period currently differ significantly, and the Parliament's positions on both of these are in contradiction to the European Electricity Balancing Guideline, which has just been agreed and only came into force on 18 December 2017. The Parliament's gate closure text cuts across the proposal for the intraday cross-zonal gate closure time (to be set at one hour) which is currently under active consideration by ACER. This would also cause problems for the European balancing platform for replacement reserve mandated by the Guideline, which is currently under development. Both assume that the intraday market closes at one hour before real time and that TSO balancing commences from that time. The Balancing Guideline should be given time to bed in before such significant changes are made, and where the costs of such a sudden change will ultimately fall upon the European electricity consumer.

7. Flexibility for market operators to develop products that suit market needs - Art. 6(3)

Market operators, such as energy exchanges, need to be given sufficient flexibility to develop innovative and competitive products as well as trading opportunities suiting market participants' needs, as initially foreseen in the Commission's proposal (Art. 6(3)).⁶ Naturally, this flexibility to implement products would be subject to the fulfilment of all relevant regulation. We therefore call on both the Council and the Parliament to re-align with the initial proposal.

⁵ www.europex.org/position-papers/the-essential-tasks-of-third-party-market-operators-in-the-electricity-market

⁶ Article 6(3) of the Commission's proposal (COM(2016) 861 final/2) stipulates: 'Market operators shall be free to develop products and trading opportunities that suit market participants' demand and needs [...]'.

8. Electricity supply price regulation - Art. 5 of the Electricity Directive

The suggested electricity supply (retail) price regulation would imply severe negative consequences for the efficient functioning of wholesale and retail electricity markets across Europe. As a matter of fact, regulated prices – at retail or wholesale level – distort the efficient functioning of the market, and therefore need to be avoided. The possibility of intervening in (end user) price setting in the draft recast of the Electricity Directive should be categorically excluded. The Council's proposal of introducing unspecified wholesale market price setting safeguards is insufficient and potentially misleading.

About

Europex is a not-for-profit association of European energy exchanges with 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.

Contact

Europex – Association of European Energy Exchanges

Address: Rue Archimède 44, 1000 Brussels, Belgium

Phone: +32 2 512 34 10

Website: www.europex.org

Email: secretariat@europex.org

Twitter: @Europex_energy