



- Consultation response -

Europex response to the CEER Public Consultation on the draft 3D Strategy and CEER 2019 Work Programme

Brussels, 9 August 2018 | Europex welcomes the efforts by the Council of European Energy Regulators to address upcoming challenges of the energy sector with a 3D strategy. An increasingly interconnected and interdependent European Internal Energy Market requires enhanced cross-border cooperation. The energy transition and digitalisation bring unprecedented challenges which the entire sector has to address. We believe that the regulatory framework should keep focusing on reducing emissions, keeping costs low and maintaining a high level of security of supply. At the same time, it should encourage innovation and change and support new opportunities stemming from these fundamental developments.

A selection of responses submitted to the online consultation are included below.

B1.1. To what extent have we captured the key ongoing and anticipated trends and challenges as part of the changing energy system?

Cost-efficient decarbonisation

The 3D strategy in its current form only briefly acknowledges the opportunities provided by efficiently functioning energy wholesale markets against a backdrop of enhanced digital innovation and further decarbonisation. The strategy, however, should put a stronger emphasis on the fundamental role that wholesale markets currently play and will continue to play in many aspects of the energy transition.

Well-functioning energy and emissions markets are a vital enabler for cost- and resource-efficient decarbonisation. They are increasingly important for the management of risk, the development and integration of renewable energy sources and new products, like flexibility, and are contributing to the determination of the necessary long-term investment signals. For example, clear price signals will help to foster important changes in the gas sector, including the advancement and integration of renewable gas, the extended use of gas in other sectors, such as transport, and the development and modernisation of the necessary infrastructure.

We therefore agree that a holistic cross-sectoral and entire energy system wide approach (including electricity and gas both conventional and renewable) is necessary to achieve the goal of cost-efficient decarbonisation. It will be an important objective to develop more system flexibility, to free up more cross-sectoral potential, and to increase coordination between the gas and electricity sectors. There is room for advanced sector coupling covering multiple aspects, including regulation, market design, digitalisation and innovation, and all this will be most efficiently achieved through a market driven process.

Gas (both natural and renewable gas) has an important role to play in decarbonisation and will remain a main energy source in the future energy mix. It can help to deliver the transition towards a cleaner and more sustainable energy sector. The demand for gas keeps growing, as gas provides a high level of flexibility and can be used to adapt in situations of peak load or when bottlenecks occur. This will be even more important in the future with a significantly higher renewable share than today. Therefore, the positive growth of the gas market should be encouraged and the market-driven use and development of available infrastructure should be facilitated.

We agree with the need to minimise and phase out subsidy mechanisms. Instead, we strongly encourage an enhanced use of market mechanisms to help the integration of renewable energy sources without the use of subsidies.

Another priority should be to ensure that the share of taxes, fees and levies is minimised in the final energy bill and that the wholesale price signal keeps its relevance. In the EU on average the energy component accounts for only around one-third of the total bill. The rest is made up of taxes, levies and network charges. A relatively low energy component in the consumer bill (i.e. the part of the price paid to the retailer) results in real-time price signals not being passed on to consumers.

Dynamic regulation

Traded markets require a stable regulatory framework that provides legal certainty, predictability and long-term stability. Any regulatory change must follow a pre-defined and appropriate rule setting and oversight mechanism. Furthermore, the full implementation of the existing regulatory framework must be a priority before introducing new regulatory measures.

While we acknowledge the need for regulation to adapt to an evolving energy system, care should be taken that it does not detrimentally affect existing infrastructure in maintaining its value as an important tool to support cost-effective decarbonisation of the energy sector. Europex already underlined this point in its reaction to the recent CEER study on the Future Role of Gas (FROG).

As a matter of fact, we have observed a very positive development of European wholesale gas markets, especially in North-Western Europe where the Third Energy Package has been consistently implemented. In the wholesale gas market, focus must therefore not be lost on the full implementation of the current regulatory framework – the Third Energy Package and the network codes, before introducing new regulatory measures. Any new regulatory initiative must build on lessons learned and be accompanied by appropriate impact assessment, including cost-benefit analysis, and comprehensive stakeholder consultation.

Digitalisation

Advanced digitalisation will be a key driver for the whole economy, including the energy sector. It will have an important impact on business strategies and provide new possibilities and opportunities for the development of the future energy system and the integration of RES.

Digitalisation can help support the energy transition by rendering the overall system more flexible, manageable and accessible. Therefore, this topic should be carefully addressed and clear definitions should be developed (the concept of a ‘prosumer’ for example). It should be ensured that regulation does not hinder innovation and further development in system optimisation and system evolution.

Wholesale energy markets are highly impacted by digitalisation. Trading is increasingly automated and dominated by digital technologies, including automated trading processes, big data to improve forecasts and trading strategies, algorithmic trading and so on. Digital capabilities and automation are also enabling the development of a more decentralised energy sector.

In this new landscape, non-discriminatory access to grids and liquid wholesale markets are key elements in guaranteeing competition between suppliers and freedom of choice for consumers. In this context, markets serve as an important orchestrator in an ever more complex system.

For energy exchanges, innovation is integral to efficient and ever-changing electricity and gas markets, also with a view to enabling the ongoing energy transition. Together with other stakeholders, we are embracing new technologies and opportunities. While we constantly adapt and drive innovation ourselves, the basic principles and advantages of the wholesale market remain valid.

B2.2. To what extent do our proposed strategic objectives protect and empower consumers in light of the identified opportunities and challenges?

Efficient and transparent wholesale electricity and gas markets in Europe have brought significant welfare gains to European consumers. The internal energy market has increased

the efficiency of how production assets and transmission capacities are being utilised. Overall, this has led to lower prices for consumers and greater security of supply, as power and gas are made available where they are needed. Regulation should continue to support and foster these developments.

Further strengthening wholesale market liquidity – for example by reinforcing a stable regulatory framework and open market access - will empower consumers even more and should be explicitly included as a strategic objective.

The same applies to the relevance the price signal is given with regard to decisions taken by retail consumers. An increased share of the wholesale energy price component in the final bill can improve the price elasticity of residential demand.

B3.3. Please indicate if you identify any missing objective on which regulators should focus.

For wholesale gas markets in Europe, many Member States have not yet fully implemented the necessary rules that allow for competitive and liquid markets. There are still differences between countries which persist and which are not being adequately addressed. We encourage a continuous dialogue between regulators and other relevant stakeholders to improve further harmonisation of the regulation in place across countries. Full and consistent implementation of the Third Energy Package across Europe is an ongoing priority and should also be included in the 3D strategic objectives.

Regulated retail prices must be phased out as a priority, and it would be beneficial to also include this as a strategic objective. Regulating retail prices impedes consumers from realising the true value of the energy they consume. Retail price regulation poses also a serious obstacle to competition among energy supply companies. It reduces the incentive on companies to become more efficient, it discourages the emergence of new market participants and it stifles the development of value-added services.

In addition to their negative impact on retail markets, regulated prices distort the functioning of the wholesale markets, limiting and partly undermining the price formation process. This implies higher energy costs for all consumers – big and small. Given that the EU's internal energy market is interconnected and interdependent, regulated prices in one Member State also have an impact on the price formation in other Member States.

C9. Deliverable 3: Consumers and retail markets: Retail Market Monitoring Report

Concerning the indicators and metrics from the “Roadmap to 2025” for well-functioning Retail Energy Markets, we would like to make the following observations:

The indicative & non-exhaustive character of the market metrics must be considered. The metrics were drawn up based on a market survey with limited participation.

The choice of TTF and NBP as benchmark hubs for well-functioning markets was not realistic (at the time of the update of the Gas Target Model) and is still possibly misleading, in terms of which functionalities, features and trade volume sizes a market should have to fulfil the requirements of being part of the IEM.

Any market assessment should rather be based on a qualitative evaluation instead of applying (arbitrary) quantitative criteria. Experience shows that establishing large and liquid hubs takes time.

Notably (regional) liquid futures markets will eventually develop but cannot be artificially imposed by regulation.

About

Europex is a not-for-profit association of European energy exchanges with 26 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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