

Joint declaration by a group of industry associations
“2016, time to deliver... an ambitious power market reform”

The signatories of this declaration gather leading associations and industry groups with a clear stake in Europe’s energy policy. We share the conviction that only a flexible and dynamic energy system, making the best use of innovative and distributed supply and demand options, can ensure a cost-efficient and sustainable transition towards a decarbonised energy system.

We strongly believe that a market-driven environment is the best means to provide long-term investment signals while meeting all system needs and accommodating the growing share of renewable energy in the energy mix. The completion of the Internal Energy Market will improve system adequacy and efficiency, increase security of supply, support the competitiveness of European industry, and help deliver the energy and climate goals stemming from the COP 21 agreement and EU’s post 2020 objectives on emissions reductions, energy efficiency and renewables.

However, we see many constraints persisting in the energy sector that affect investment decisions, in particular: 1) depressed wholesale market prices due to overcapacity; 2) fading EU-coordination of energy policies with a tendency towards renationalisation; and 3) an antiquated set of market rules.

Market rules have been tailored to centralised production within national boundaries for too long. Not only have they failed to adapt to developments in energy technologies and evolution of demand patterns both at industry and end-consumer level, but some of them hamper the deployment of renewables, storage and demand-side flexibility. These new technologies can today provide valuable services including balancing energy offering significant flexibility to the system.

The energy system is now more complex to plan, control and balance. It needs enhanced flexibility that could be provided by a mix of options, but this would require significant changes in the relevant legislation. In this respect, we consider the upcoming legislative package on market design as a unique chance to provide the energy sector with a predictable investment framework, fairer market conditions, and ultimately seize new opportunities arising from decentralised energy production and demand side participation.

In particular, we deem essential that any ambitious reform of the energy market addresses the following issues:

1. Providing adequate price signals and further integration of short-term markets across borders
2. Ensuring a balanced approach to system adequacy that fully takes into account the contribution from renewable energy supply and demand sources
3. Implementing a level playing field for all flexibility providers to foster the pan-European trading of electricity and grid support services.

1. Providing adequate price signals and further integration of short-markets across borders

In a well-functioning electricity market, unhindered price-formation drives operational choices and investment decisions. Transparent and undistorted market prices must be in place in all time horizons, and allowed to move freely without caps. Wholesale electricity prices reflecting scarcity would signal the need for investments in new capacity. Therefore, price spikes should be treated as a positive sign of an efficient and cost-effective energy system where market participants are free to choose the level of hedging they prefer to contract, revealing the true value of flexibility and energy at all times.

Market rules also need to be adapted so as to enhance clean and flexible energy providers to trade power over broader geographical areas and as close as possible to the time of delivery. In this context, the opening and cross-border integration of intraday market is essential, especially for energy producers whose output is variable. As long as separate procurement of balancing capacity and energy is guaranteed, another important aspect is the possibility to negotiate the duration of contracts, e.g. for balancing contracts. This is crucial, as certain flexibility technologies may require considerable capital investment and, therefore, contracts with a longer duration.

2. Ensuring a balanced approach to system adequacy that fully takes into account the contribution from different energy sources

The main challenge for security of electricity supply is not the availability of capacity as such, but the availability of flexibility that is needed to support the system and provide for a constant balance between supply and demand.

In order to identify potential, locally constrained adequacy issues, system adequacy assessments should be carried out according to a common methodology and metrics transparently defined in EU legislation¹. Such analysis should be performed at regional level and consider the potential of all flexibility options, from the various energy supply and demand sources. This would ensure a rigorously needs-based approach to the introduction of Capacity Remuneration Mechanisms (CRMs) when the market cannot deliver the adequate flexibility.

If CRMs are deemed necessary, they should be designed in a way that minimises any negative impacts on the price formation on energy markets. They should avoid contributing to continued overcapacity situation by keeping redundant and polluting power plants online, and prioritise clean flexibility options as foreseen in the energy state aid guidelines.

3. Implementing a level playing field for all flexibility providers² to foster the pan-European trading of electricity and grid support services

¹ Incl. a clear system adequacy target level for all control areas in the EU as many countries are lacking one

² "A service provided by a network user to the energy system by changing its generation and/or consumption patterns in response to an external signal" (Task Force Smart Grids report, 2015)in

In addition to the modernisation and further opening of the balancing market, a proper market for ancillary or grid support services needs to be fostered to provide additional non-discriminatory revenue streams to flexibility providers, as well as overall operating cost savings for the energy system. As of today, a number of services and solutions from decentralised generation and demand-side response are technically feasible, but current market conditions do not properly value their commercial provision.

The continued adaptation of balancing and ancillary services markets should foster liquidity and incorporate innovative and decentralised solutions. Prohibitive pre-qualification requirements and access conditions for independent aggregators, extended product-durations or minimum thresholds and symmetric bids are some of the aspects currently hampering an effective market. Moreover, contradictory regulatory signals, e.g. regarding network tariffs, the operation of industrial loads or co-generation should be addressed to ensure demand side flexibility further develops without impeding the achievement of robust energy efficiency targets.

