

The new EU electricity market design should focus more on markets and less on regulation

Executive summary

The American Chamber of Commerce to the European Union (AmCham EU) supports building of a liberalised and integrated EU electricity market. This initiative will provide access to secure, competitively priced, and low-carbon energy while providing the European dimension to security of electricity supply.

To foster integration of renewables in the energy system, the immediate political focus should lie with supporting the investments needed in infrastructure projects to integrate renewables such as energy storage. To facilitate digitalisation of distribution systems, data collection and distribution must be given a greater role and data protection must be secured.

Competition and cost efficiency are paramount when renewables are promoted. This requires the phase out of subsidies and a shift towards research and innovation for low carbon technologies and storage.

If required, capacity mechanisms, as a last resort must be temporary, regional and at come at minimal cost. A liberalised electricity market allows for price spikes and allows markets to identify the most flexible solutions.

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AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate US investment in Europe totalled more than €2 trillion in 2015, directly supports more than 4.3 million jobs in Europe, and generates billions of euros annually in income, trade and research and development.

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The American Chamber of Commerce to the European Union (AmCham EU) supports the building of a liberalised EU energy market as well as the European Commission's objectives to create an integrated electricity market. This initiative will provide access to secure, competitively priced, and low-carbon energy while providing the European dimension to security of electricity supply.

AmCham EU supports a strengthening of regional cooperation with an enhanced role for the Agency for the Cooperation of Energy Regulators (ACER) and the the European Network of Transmission System Operators for Electricity (ENTSO-E). EU Member States must reinforce cross-country cooperation on energy policy, in particular for investment in new energy production facilities, interconnectors and funding rules, as well as the integration of renewables into the European Single Market.

However, the integration of electricity markets must also respect the right of Member States to determine the national energy mix and overall structure of their energy supply. Moreover, the building of a liberalised EU energy market must ensure full compliance with legally binding commercial contracts.

A transformed European-wide electricity market that allows the market to function efficiently

We envision a gradual decarbonisation of the EU power sector through a further increase in the share of low-carbon electricity from wind, solar, nuclear, hydropowered, flexible conventional generation and energy storage. The new market design should provide signals that will steer investments into those low-carbon technologies that secure the supply of electricity at a competitive price, taking into account the costs related to balancing and flexibility.

AmCham EU understands that Member States must meet specific quantitative objectives for the share of renewables in the energy system, irrespective of the market situation. While the promotion of renewables is important for their uptake, it is equally or even more important to focus on their integration by putting in place the necessary infrastructure to ensure competitive renewable energy supply on a Europe-wide basis. The immediate political focus should therefore lie with supporting the investments needed in infrastructure projects for integrating renewables, such as energy storage.

Competition and cost efficiency are paramount when renewables are promoted. In this respect AmCham EU regards the promotion of investment as more compatible with the market than feed-in priorities and fixed prices. The phase-out of subsidies outside the market and a shift towards research and innovation for low carbon technologies and storage is absolutely needed. Instead of adapting the market to renewables, the EU electricity market design should be technology agnostic and integrate them in the market by giving all generation capacity the same rights and obligations in terms of balancing and backup. We also call for measures to facilitate necessary investments in distribution systems which are not yet ready to accept growing quantities of renewables or digitalised control mechanism. To facilitate digitalisation of distribution systems, data collection and distribution must be given a greater role and data protection must be secured.

Full market integration, however, is essential to accomplish a pan European electricity market

European consumers and companies should not have to face black-outs, and capacity mechanisms – as a last resort – can help to reduce this risk. Nevertheless, all energy consumers, including industrial ones, should not overpay for electricity and competition should not be undermined. A well-designed capacity mechanism needs to be open and take into account electricity that can be provided across EU borders, thereby also contributing to building an Energy Union in Europe. If required, capacity mechanisms must be temporary, regional, and focused on safeguarding security of supply at minimal cost to the consumer.

To support the achievement of security of supply at minimal cost to the consumer, a balanced energy mix needs to be maintained. Other elements can also minimise the need for capacity markets as a very last resort:

- Enhanced European coordination and enlargement of cross-border grid capacities would help to further reduce the need for (national) capacities;
- Increased transmission and strategic interconnector capacity could optimise allocation and congestion mechanisms;
- Simplified permitting procedures for new generation capacity and energy storage;
- Research and innovation into economically viable methods of electricity storage should be particularly stimulated.

In addition, should the Commission continue to allow the introduction of capacity mechanisms across the EU it should establish clear guidelines on their use. Any introduction of a capacity mechanism should be coordinated at the regional and/or EU level and be aimed at solving a specific, well-defined problem (e.g. generation adequacy issue). The need for their introduction has to be well documented, including a cost impact assessment. The final report of the European Commission's sector inquiry on electricity capacity mechanisms provides an important basis for this work.

Demand side response must be voluntary as not all producers can offer flexibility

AmCham EU supports a liberalised electricity market. This means that prices should reflect the actual situation in the market and price spikes, which have to be accepted as signalling market mismatches. When addressing the issue of intermittency, reliable and liquid instruments, together with physical (forwards) or financial (hedging) markets and instruments should be made available to manage these risks.

As a staunch supporter of a new European electricity market design, AmCham EU calls on the Commission to allow markets to identify the most flexible solutions to react to energy supply and demand while avoiding setting different prices or sending policy signals that promote one technology over another.