

Public consultation on a new energy market design

Fields marked with * are mandatory.

Information about you

* Are you responding to this questionnaire on behalf of/as:

- Individual
- Organisation
- Company
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- Other

* Name of the company/organisation

EURACOAL - the European Association for Coal and Lignite- is the umbrella organisation of the European coal industry.

* Please describe briefly the activities of your company/organisation and the interests you represent

EURACOAL's mission is to highlight the importance of coal within the EU to security of energy supply, to energy price stability, to economic added value and to environmental protection. EURACOAL seeks to be an active communicator, with the aim of creating an appropriate framework within which the European coal industry and coal consumers can operate.

* Which countries are you most active in?

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Please specify

Bosnia-Herzegovina; Serbia; Turkey; and Ukraine.

Are you registered with the EC transparency register?

- Yes
 No

My number is

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copyright restrictions).
- NO - please keep my answers confidential (my answers/personal data will not be
published, but will be used internally within the Commission)

Short-term markets

- * (1) Would prices which reflect actual scarcity (in terms of time and location) be an important ingredient to the future market design? Would this also include the need for prices to reflect scarcity of available transmission capacity?

EURACOAL's position is that on undistorted markets there is no better tool to signal where investment is needed than price, including its locational and time components. Future market design should therefore minimise current market distortions and not introduce new ones. In a competitive generation market, consumer sovereignty is a central concept, meaning that consumers determine what is produced where and when. Consumers reward companies that are most successful in satisfying demand efficiently and, consequently, incentivising companies to innovate. Consumer sovereignty cannot exist in a heavily distorted market, thus the future market design should limit and reduce market distortions, such as price controls when scarcity exists.

If market coupling is properly implemented, then prices should also reflect scarcity of available transmission capacities. Transmission costs are a price component, therefore consumers should be aware of the extra burden of modernising or developing new transmission capacity. Their purchase choices should be a signal which rewards companies in a competitive market, companies that cannot exist without full recovery of their costs of production.

- * (2) Which challenges and opportunities could arise from prices which reflect actual scarcity? How can the challenges be addressed? Could these prices make capacity mechanisms redundant?

In the case of energy products, prices should reflect actual scarcity of inputs used to produce them. For example, the price of coal, gas and oil is reflected in the electricity price that a utility company can offer to the market.

Prices which reflect scarcity are important signals for investment. A market player needs certainty that price peaks will not be shaved off by political interventions when investing in new generation capacity. The current underinvestment in conventional generation, which is indispensable for secure energy supply, is a consequence of repeated political interventions in the energy market to support particular outcomes.

Opportunity lies in price volatility which is a common and desirable feature of markets. Volatility reflects the value of flexibility - the closer to time of delivery, the more volatility can be observed. This feature helps in the development of the flexible capacity needed. Volatility does not necessarily mean higher prices as interconnectors across the whole of the EU and different industrial and cultural working practices will allow bi-directional flows on interconnected systems and therefore some moderation of price peaks.

Properly designed scarcity pricing would make capacity mechanisms redundant. However, the market is now heavily distorted by political interference to support producers of intermittent renewable energy who are themselves shielded from consumer choice by conventional back-up. This means that further interventions going against consumer choice may lead to market shortages (blackouts or brownouts). Given this, governments should be prepared to secure the basic electricity needs of society (e.g. with capacity mechanisms).

- * (3) Progress in aligning the fragmented balancing markets remains slow; should the EU try to accelerate the process, if need be through legal measures?

Alignment of balancing markets would be appreciated, thus allowing a more competitive market and rewarding companies that better serve consumers. So far, most markets are connected on intraday basis only.

However, any legal or other interventions need to address long-term grid development and not simply respond to current shortcomings. If national balancing markets are to be harmonised, then we feel a strong need for transparency and a full debate on any such harmonisation.

- * (4) What can be done to provide for the smooth implementation of the agreed EU-wide intraday platform?

For the time being, commercial entities hesitate to invest into an EU-wide intraday platform because low volumes might be traded on any intraday market compared with forward markets.

For a better implementation of the platform, system operators should simultaneously provide platform participants with forward transmission rights in order to enable them to hedge against short-term and volatile congestion costs between bidding zones.

Long-term markets to enable investment

- * (5) Are long-term contracts between generators and consumers required to provide investment certainty for new generation capacity? What barriers, if any, prevent such long-term hedging products from emerging? Is there any role for the public sector in enabling markets for long term contracts?

Voluntary long-term contracts should be allowed for the life-time of a power plant, hence providing investment certainty for new generation capacity, but are not essential.

One of the barriers preventing the emergence of long-term hedging is the current wholesale market price that does not incentivise investment into any unsubsidised capacity. Heavily subsidising certain technologies (i.e. the solar boom leaves a debt to be paid by German consumers over the next 20 years of €100 to €200 billion) distorts the energy market so much that almost all other energy sources are at a disadvantage. Due to the large subsidies, rent-seeking rather than investing has become the norm for many utilities. Furthermore, long-term contracts are not attractive enough for consumers, unless offered with heavy discounts.

Another barrier is the uncertainty resulting from the many changes to the EU Emissions Trading Scheme (ETS), despite the system achieving its emission reduction targets. The set-aside threat, backloading, the Market Stability Reserve, and the change to the annual allowance reduction rate were all disruptions to the system that reduced predictability and, consequently, prevented long-term hedging products from emerging. The ETS is delivering its objective for 2020: the ETS sector will reduce its CO2 emissions by 21% compared with a 2005 baseline in a cost-effective and economically efficient way.

If advantageous, the public sector may decide to underwrite long-term contracts, in order to secure supply, but it is perhaps more important to give investors the confidence to invest for the long term. That means creating a stable policy environment during a project's capital repayment period - something which is now absent in the EU, with many important directives under perennial review.

- * (6) To what extent do you think that the divergence of taxes and charges[1] levied on electricity in different Member States creates distortions in terms of directing investments efficiently or hamper the free flow of energy?

[1] These may be part of general taxation (VAT, excise duties) or specific levies to support targeted energy and/or climate policies.

There should be no national wholesale taxes or levies on electricity as they directly affect the investment decisions and/or hamper the free flow of energy across borders. Investments into generation capacity are not particularly influenced by taxes and charges levied on retail electricity sales, because unsubsidised generators take their revenues from the wholesale market.

Renewable generation

*** (7) What needs to be done to allow investment in renewables to be increasingly driven by market signals?**

A successful EU ETS is important as it provides clear market signals for all low-emission technologies.

Mature renewables (wind and solar) should be fully integrated in the electricity market and incentivised by market signals alone, without subsidy; signals primarily provided by the electricity market and the ETS. Furthermore, all new renewable energy sources should have nomination obligations and be responsible for balancing.

New technologies e.g. wave, tidal, geothermal and CCS should have financial support for a prescribed period, proportionate to the size of capital investment needed and above-market operating costs.

*** (8) Which obstacles, if any, would you see to fully integrating renewable energy generators into the market, including into the balancing and intraday markets, as well as regarding dispatch based on the merit order?**

Operators of all renewable energy sources should have the same responsibilities as any other generator. There are no obstacles, in principle, to integrating renewables into the market; balancing responsibility could be imposed quickly. Integration of renewables has to be through a mechanism that rewards kWh generated to meet actual demand.

An important note here is related to output versus capacity. Between 2000 and 2012, EU electricity generation increased by 9%. In contrast to the modest increase in output - averaging 0.7% each year - generation capacity increased by 41% over the same period. Europe is in fact building a second system that relies on conventional plants on still nights and at many other times. Whereas nuclear plants produce around 80% of their maximum possible output and fossil plants can run with similar reliability, wind turbines produce barely more than 20% and solar PV panels generate not much more than 10% of their rated full-load output.

- * (9) Should there be a more coordinated approach across Member States for renewables support schemes? What are the main barriers to regional support schemes and how could these barriers be removed (e.g. through legislation)?

EURACOAL agrees with the Commission that renewables support should be highly co-ordinated across the EU. However, the value of support schemes should be country specific to reflect local climate conditions, and to keep the right of each Member State to select its own energy mix.

In Germany, the green levy on consumers has risen from 0.2 €ct/kWh in 2000 to 6.24 €ct/kWh in 2014 to meet the €20 billion annual cost of subsidising renewables. This burden would be impossible to bear in less wealthy Member States.

Demand response

- * (10) Where do you see the main obstacles that should be tackled to kick-start demand-response (e.g. insufficient flexible prices, (regulatory) barriers for aggregators / customers, lack of access to smart home technologies, no obligation to offer the possibility for end customers to participate in the balancing market through a demand response scheme, etc.)?

It is necessary to create suitable conditions for investments in new technologies that allow demand response and to avoid legislative and regulatory barriers. However, customers should have the possibility to participate in the balancing market through demand response only if they fulfil two essential conditions: they require it based on economic motivation and they bear the costs of implementation.

Costs of demand response measures should not be borne by distributors but by beneficiaries i.e. demand response providers. Adding the cost of demand-response measures to the price of electricity would create an extra cost for consumers that do not want or cannot afford the additional cost.

It is important to note that the kick-start response is unpredictable. Some consumers may be careful with their energy use, while others are uninterested in demand-side management (DSM). Note that too much focus on demand reduction can counter economic and industrial growth as it can easily turn into demand destruction. For example, the owner of an aluminium smelter can offer to reduce electricity consumption, but then the smelter is no longer in the business of aluminium production and risks jeopardising its own future. DSM is opportunistic and not a long-term business model for any industrial plant.

Furthermore, DSM creates further uncertainties for an electricity grid that already has many unknowns due to the increased capacity of intermittent renewables. Finally, wholesale price spikes are a natural and the least distortive way of promoting demand response. Therefore price spikes should not be regulated.

Cooperation between System Operators

- * (11) While electricity markets are coupled within the EU and linked to its neighbours, system operation is still carried out by national Transmission System Operators (TSOs). Regional Security Coordination Initiatives ("RSCIs") such as CORESO or TSC have a purely advisory role today. Should the RSCIs be gradually strengthened also including decision making responsibilities when necessary? Is the current national responsibility for system security an obstacle to cross-border cooperation? Would a regional responsibility for system security be better suited to the realities of the integrated market?

The role of RSCI should be gradually strengthened as regional co-operation is important for secure system operation. However, the assessment of cross-border contributions is a decision to be made at the national level where the responsibility for security of supply remains.

The same definition of key terms such as scarcity, emergency, etc. is highly desirable. Other issues should be co-ordinated as well, e.g. the right to strike in the power sector is different in different countries, raising different security of supply impacts.

An emergency situation in one Member State should be solved in a co-ordinated manner with neighbouring Member States and not by closing borders and blocking exports. The emergency situation should not be solved in a discriminatory way that impacts foreign end consumers without involving domestic end consumers. Costs of emergency situations should be socialised and should not be borne by randomly affected market participants.

Adapting the regulatory framework

- * (12) Fragmented national regulatory oversight seems to be inefficient for harmonised parts of the electricity system (e.g. market coupling). Would you see benefits in strengthening ACER's role?

EURACOAL's position is that ACER could be strengthened by having rights and increased competencies in some specific areas of cross-border co-operation and wholesale markets, e.g. dispute arbitration, integrated intraday and balancing markets, the forward allocation of transmission capacity, but not beyond that.

- * (13) Would you see benefits in strengthening the role of the ENTSOs? How could this best be achieved? What regulatory oversight is needed?

Overall, there are benefits in strengthening the role of the ENTSOs. There is a concern about the potential for conflicts between their role as promulgators of the network codes and their role as representatives of system operators, leading to a situation of "lowest common denominator".

- * (14) How should governance rules for distribution system operators and access to metering data be adapted (data handling and ensuring data privacy etc.) in light of market and technological developments? Are additional provisions on management of and access by the relevant parties (end-customers, distribution system operators, transmission system operators, suppliers, third party service providers and regulators) to the metering data required?

EURACOAL considers that ENDSO-E, an institution similar to the current ENTSO-E, should be established. The institution should provide consultancy and expertise to the European Commission. DSOs must play a more active role in relation to final customers, i.e. it could become a facilitator for the implementation and use of new technologies, data provider and a demand response operator.

At the same time DSOs have to be prepared for the development of decentralised generation. No additional provisions on management and access are needed, from our point of view.

- * (15) Shall there be a European approach to distribution tariffs? If yes, what aspects should be covered; for example framework, tariff components (fixed, capacity vs. energy, timely or locational differentiation) and treatment of own generation?

EURACOAL strongly disagrees with this approach which ignores the geographic, natural and climate differences between Member States. Moreover, there are also differences in energy infrastructure that require a national approach. Consequently, the national distribution of tariffs should be maintained and a European approach should not be pursued.

- * (16) As power exchanges are an integral part of market coupling – should governance rules for power exchanges be considered?

EURACOAL strongly disagrees with governance rules for power exchanges. Power exchanges have diverse governance rules, but that has no real impact on their operation or on market coupling.

European dimension to security of supply

* (17) Is there a need for a harmonised methodology to assess power system adequacy?

Security of supply is at the very heart of the energy markets. EURACOAL supports a common European methodology to assess power system adequacy to ensure the same level of security of supply is achieved in all EU Member States. The introduction of legally binding supply standards creates a common yardstick against which society's expectations towards supply security can be measured.

Given the importance of electricity and the disruption caused if electricity supply is interrupted, it is recommended that the "de-rated" capacity margin for power generation in Member States is assessed, this being a measure of the amount of excess supply above peak demand, expressed as a percentage:

$$\text{de-rated capacity margin (\%)} = (\text{total available de-rated capacity} - \text{peak demand}) / \text{peak demand} \times 100$$

"De-rating" means that the capacity figure is adjusted to reflect the availability of particular types of power plants. Thus, it gives an indication of the output from a particular source that is likely to be technically available at times of peak demand. For example, a coal-fired power plant might be assumed to be available for 85% of the time, whereas a wind turbine might be available for 17-24% of the time, depending on its location.

Attention should be given to interconnections that cannot always cover generation inadequacy if the neighbouring countries do not have excess reliable available capacity. Weather conditions determine peak load and often coincide around the same weeks in neighbouring countries. For this reason, the shares of indigenous energy in Member States are an important measure of energy security. The following performance measure is proposed which includes the security benefit of holding energy stocks (e.g. oil, gas or coal), expressed as a percentage:

$$\frac{(\sum \text{indigenous energy production} + \sum \text{energy stocks})}{(\sum \text{indigenous energy production} + \sum \text{energy imports} - \sum \text{energy exports})}$$

Where indigenous energy production relates to the production of electricity (e.g. from hydro, nuclear or renewable sources), then a multiplier should be applied to reflect the higher value of electrical energy. Similarly, where electrical energy is stored, it should be given a higher weighting than fossil fuel stocks.

- * (18) What would be the appropriate geographic scope of a harmonised adequacy methodology and assessment (e.g. EU-wide, regional or national as well as neighbouring countries)?

A common adequacy methodology should be binding for the EU bodies when assessing compliance of capacity mechanisms with EU rules. As such, its geographic scope should be based on reality-checks and generally should start at the national level. The geographic scope should include the European electricity and gas markets.

- * (19) Would an alignment of the currently different system adequacy standards across the EU be useful to build an efficient single market?

Adequacy standards deal with security of supply, i.e. emergency situations. An efficient single market solves normal situations. If adequacy standards are harmonised, the overlap of these topics is solved.

* (20) Would there be a benefit in a common European framework for cross-border participation in capacity mechanisms? If yes, what should be the elements of such a framework? Would there be benefit in providing reference models for capacity mechanisms? If so, what should they look like?

A framework should ensure a capacity mechanism has no impact on wholesale markets; specifically a trigger price should be high enough not to cause interference and allow for demand response development.

- * (21) Should the decision to introduce capacity mechanisms be based on a harmonised methodology to assess power system adequacy?

EU bodies should be obliged to use a common methodology when assessing compliance of capacity mechanisms with EU rules.

Submission of additional information

If you want to submit further documents, please send these only to ENER-MARKET-DESIGN@ec.europa.eu. Further documents can only be a complement to answering the above questions. Please also mention your name or that of your organisation in the subject line of your mail and reply to the following question

- * Did you send additionnal submissions to ENER-MARKET-DESIGN@ec.europa.eu

- yes
 no

THANK YOU FOR YOUR COLLABORATION!

Contact

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