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DRAFT REPORT

on ‘Towards a New Energy Market Design’
(2015/2322(INI))

Committee on Industry, Research and Energy

Rapporteur: Werner Langen

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on 'Towards a New Energy Market Design'
(2015/2322(INI))

The European Parliament,

– having regard to the Treaty on the Functioning of the European Union, and in particular Articles 114 and 194 thereof,

– having regard to the Commission communication of 5 November 2013 entitled 'Delivering the internal electricity market and making the most of public intervention' (C(2013)7243) and the Commission staff working document entitled 'Generation Adequacy in the internal electricity market – guidance on public interventions' (SWD(2013)0438),

– having regard to the Commission communication entitled 'Guidelines on State aid for environmental protection and energy 2014-2020' [1],

– having regard to the Commission communication of 16 December 2014 entitled 'Commission Work Programme 2015 – A New Start' (COM (2014)0910),

– having regard to the Commission communication of 25 February 2015 entitled 'Energy Union Package – A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy' (COM(2015)0080),

– having regard to the Commission communication of 25 February 2015 entitled 'Achieving the 10% electricity interconnection target – Making Europe's electricity grid fit for 2020' (COM(2015)0082),

– having regard to the Commission communication of 15 July 2015 entitled 'Launching the public consultation process on a new energy market design' (COM(2015)0340),

– having regard to the Council conclusions of 23 and 24 October 2014 on the 2030 Climate and Energy Policy Framework;

– having regard to the Council conclusions of 19 March 2015 on the Energy Union,

– having regard to the Council conclusions of 26 November 2015 on the governance system of the Energy Union,

– having regard to Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators[2],

– having regard to Regulation (EC) No 714/2009 of the European Parliament and the Council of 13 July 2009 on conditions for access to the network for cross-border

[1] OJ C 200, 28.6.2014, p. 1.
[2] OJ L 211, 14.8.2009, p. 1.

exchanges in electricity and repealing Regulation (EC) No 1228/2003[1],

– having regard to Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009[2],

– having regard to Directive 2005/89/EC of the European Parliament and of the Council of 18 January 2006 concerning measures to safeguard security of electricity supply and infrastructure investment[3],

– having regard to the Third Energy Package,

– having regard to Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC[4],

– having regard to Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC[5],

– having regard to its resolution of 15 December 2015 entitled 'towards a European energy union'[6],

– having regard to its resolution of 15 December 2015 on achieving the 10% electricity interconnection target – Making Europe's electricity grid fit for 2020[7],

– having regard to Rule 52 of its Rules of Procedure,

– having regard to the report of the Committee on Industry, Research and Energy (A8-0000/2016),

A. whereas the Commission's planned transformation of the electricity market must contribute to efficiency and security of supply;

B. whereas the integration of the energy markets will enhance achievement of the Treaty goals of secure, low-cost and sustainable energy;

C. whereas the integration of the electricity markets must also respect the right of the Member States to determine the national energy mix and the overall structure of their energy supply;

D. whereas the positive experiences gained from cooperation in the Pentalateral Energy Forum are models for greater regional market responsibility;

[1] OJ L 211, 14.8.2009, p. 15.
[2] OJ L 115, 25.4.2013, p. 39.
[3] OJ L 33, 4.4.2006, p. 22.
[4] OJ L 140, 5.6.2009, p. 16.
[5] OJ L 211, 14.8.2009, p. 55.
[6] Texts adopted, P8_TA(2015)0444.
[7] Texts adopted, P8_TA(2015)0445.

E. whereas national capacity markets make it harder to integrate electricity markets and run contrary to the objectives of the common energy policy;

F. whereas increased cooperation at regional level is indispensable, but should not lead to comprehensive European regulatory control;

G. whereas national duties, fixed prices, subsidies, feed-in priorities and lack of interconnectors prevent a functioning internal market in electricity and thus delay the full market integration of largely CO_2-free energy sources;

H. whereas a medium-term increase in interconnection between the Member States to 15% could improve security of supply;

1. Welcomes the Commission communication on the transformation of the energy market and endorses the view that the transformed electricity market should enhance regional cooperation on security of energy supply and should focus on more market and less regulation;

2. Calls for the existing regulatory framework of the European markets to be adjusted to allow for a growing share of renewable energy sources; stresses that a new market design for electricity must promote sustainable and efficient electricity supply;

3. Calls on the Member States to be more pro-actively involved in the design of a European internal market in electricity and to avoid undermining the objectives of Articles 114 and 194 TFEU by means of permanent capacity markets;

4. Takes the view that it makes sense to step up cooperation between regions under the leadership of ACER, though without the Member States abandoning responsibility for security of supply;

5. Believes that a European internal market in electricity is possible on the basis of stronger price incentives; is aware, however, of the risks of unpredictable price surges and calls for meaningful pilot projects to be carried out before introducing prices that reflect the actual scarcity of supplies;

6. Calls for appropriate transitional periods for all the proposals under discussion;

7. Stresses the importance of a common analysis of system management at regional level and calls for the transmission system operators of neighbouring markets to devise a common methodology to that end;

8. Stresses the right of Member States to determine the conditions for the use of their energy resources, the national energy mix and the overall structure of their energy supply;

9. Supports the closer linkage of differing priorities in the national energy mix, such as wind energy with nuclear or with water reservoirs;

10. Notes that network expansion in particular is indispensable with a view to completing the internal market in electricity with a growing share of renewables; regrets that there are still large gaps in the interconnections between Member States, leading to network

bottlenecks and significantly impairing cross-border energy trading; calls for the electricity interconnection objectives to be differentiated by region and aligned with the ENTSO-E ten-year network plan;

11. Notes that rapid network expansion and the removal of network bottlenecks are also essential if uniform price zones are to be retained, and that the splitting of bidding zones could be a sensible market economy approach to reflect actual electricity shortages in certain regions; takes the view that in closely integrated electricity networks the allocation of price zones should be decided together with all neighbours concerned in order to prevent both the inefficient use of networks and the reduction of cross-border capacities, which is incompatible with the internal market;

12. Is sceptical of capacity mechanisms on the grounds of high cost and the risk of market distortions, and stresses that national capacity markets are subject to the EU rules on competition and state aid;

13. Calls for national capacity mechanisms only to be authorised where a detailed analysis of the production and supply situation at regional level has been carried out in advance and a bottleneck has been identified which cannot be eliminated by less stringent measures such as a strategic reserve;

14. Insists that national capacity markets should be open to cross-border participation and should only create the capacity strictly necessary for security of supply;

15. Calls for the further development of the energy-only market, based on the consistent application of existing legislation, the comprehensive expansion of transmission infrastructure and greater regional cooperation;

16. Insists that, before a capacity market is authorised, it must be shown that all efforts have been made to reinforce the internal market and dismantle obstacles to flexibility;

17. Stresses that price volatility has a signal and guidance function in the electricity market and can be an important factor in the efficiency of the electricity market;

18. Notes that the expectation of future price surges can create incentives for producers and investors to invest in production capacity, particularly in high-efficiency modern gas-fired power stations, urges politicians not to intervene in the market even in the event of large price surges and calls, in the medium term, for the complete abolition of regulated final consumer prices;

19. Supports the EU’s goal of increasing the share of renewables to 30%; notes, however, that the permanent subsidising of renewables is outdated and that renewables too must react to market signals in this new energy system, since otherwise market signals for all electricity producers will be heightened disproportionately;

20. Notes that the Member States must meet specific quantitative objectives for the share of renewables in energy consumption, irrespective of the market situation, and therefore stresses the importance of promoting renewables in a way that focuses on competition and cost efficiency; therefore regards the promotion of investment as more compatible with the market than feed-in priorities and fixed prices;

21. Insists that, with the increasing technical maturity and widespread use of renewable energy sources, subsidy rules must be geared to market conditions in order to keep costs for energy consumers within reasonable bounds;

22. Warns against mixing energy supply objectives with climate policy objectives; calls for the ETS to be consistently reinforced and the market to be redesigned with a view to greater flexibility, so that in future CO_2 and fuel prices can give more support to the expansion of renewables;

23. Calls for operators of renewable power plants to be held strictly responsible for balancing within their areas and stresses that, in the event of departure from the schedule announced by the operator, an appropriate compensatory energy price should be charged;

24. Calls, with the subsidiarity principle in mind, for coordinated action by Member States at regional level in connection with the further expansion of renewables, in order to boost the economic efficiency of the energy market;

25. Is convinced that, alongside renewables, all energy sources which serve the objective of gradual decarbonisation will continue to have a role to play in electricity generation;

26. Takes the view that, for a medium-term transitional period, national responsibility for the energy mix cannot be questioned and therefore that both nuclear power, which is largely CO_2-neutral, and the use of national energy reserves together with high-efficiency gas-fired power stations and coal-fired electricity generation using the latest technology, can make vital contributions to the integration of renewables;

27. Stresses that greater consideration must be given to distribution system operators' local and regional responsibility for the energy union; rejects, however, the unbundling of distribution systems beyond the scope of existing legislation, since the current rules have proved their usefulness and the consumer has a free choice of suppliers;

28. Stresses that renewables should in most cases be fed in at distribution systems level, and therefore calls for distribution system operators to have a greater role overall and to be more closely involved in the European regulatory bodies;

29. Calls for measures to facilitate necessary investments in distribution systems which are not yet prepared for taking in growing quantities of renewables or for digitalisation; in this connection, data collection and distribution must be accorded a greater role and data protection must be secured;

30. Regards distribution system operators as neutral market pioneers receiving data from various sources, which they can then make available in a non-discriminatory manner to authorised third parties with the consent of the consumer;

31. Welcomes the work of ACER and calls for the agency to be provided with sufficient financial and human resources to carry out its current tasks and duties;

32. Takes the view that the transfer of responsibility for system security to supranational bodies would involve considerable regulatory effort which is not reflected in any

worthwhile efficiency gain for the transmission system operators, and that the necessary legal framework would require several years to put in place;

33. Calls for ACER to be given a power of decision-making in the coordination of cross-border issues; rejects, however, comprehensive monitoring of the energy market by ACER, since this would require the creation of a massive new authority;

34. Instructs its President to forward this resolution to the Council, the Commission and the Member States.

EXPLANATORY STATEMENT

On 15 July 2015 the Commission published a series of documents on the European single market, one of which was the consultative Communication on European electricity market design.

This detailed three political objectives for the future electricity market.

1. Creation of an EU-wide electricity market providing clear price signals for new investments.

2. Provision of a European dimension to security of electricity supply.

3. Strengthening of regional cooperation on energy policy, in particular when there is investment in new energy production facilities, for interconnectors and funding rules, and for the integration of renewables into the European Single Market.

The Communication marked the start of a public consultation on the new market design, to ensure that the energy policy objectives of security of supply, environmental impact and value for money could be achieved. This would facilitate new technologies and investments, particularly in renewables and low-carbon electricity generating facilities.

The energy-related challenges for Europe include the increased dependency on oil and gas imports in recent years, the lack of diversification, high energy prices characterised by high levels of duty, increasing global demand for energy, security risks for producing and transit countries, the fight against climate change, poor progress in energy efficiency, the increasing proportion of renewables, integration and networking of energy markets and market distortions caused by differences in support schemes.

Improved integration and coordination of energy markets means that there are many opportunities to achieve the common European goal of a secure, affordable, environmentally-sound energy supply.

Energy markets, and in particular electricity markets, are currently highly nation-state oriented, according to the principle of national responsibility for the energy mix. Measures for implementing the national energy mix vary widely, from dispensing with nuclear power to subsidising renewables and introducing 'capacity mechanisms' in some Member States to ensure security of supply.

Predictable energy prices and security of supply are indispensable in particular for maintaining domestic standards of living and ensuring job security at energy-intensive companies.

All measures put forward by the Commission must be scrutinised in terms of instruments, legal basis, implementation and the opportunities for Europeanising electricity supply.

The consultation must not aim to annul the rights of the Member States under Article 194 TFEU in terms of their national energy mix, the general structure of their energy supply and exploiting their energy resources.

The assumption here must be that in the short term, national terms and conditions for rapid market integration and the creation of a single European internal market for electricity represent a hindrance to a common European energy policy in all its aspects.
This includes, for example, differing opinions on the use of nuclear energy, subsidising renewables with long-term feed-in priority and fixed payment, the lack of interconnectors between individual regions and Member States, the fact that electricity can be stored only to a limited extent and the question of the best level at which to monitor and regulate the electricity markets in order to guarantee security of supply.

The Commission has proposed a bundle of measures on this which are assessed in the report. The following questions need to be discussed:

1. Shortage prices might be an important element of future market design, although there remain doubts as to whether free pricing on the electricity market can provide adequate security of supply, as the necessary investments in production capacity may be withheld until the actual pricing on the electricity market is known.

2. The Commission's plan to broaden the areas covered by the current tertiary reserves markets will most likely meet resistance. Before such measures are taken there needs to be a comprehensive market analysis, for the purposes of which the balancing regions in some Member States are too small to ensure an adequate supply of back-up electricity. It is true that capital-intensive renewable energy sources need a stable investment framework.
This will require a review of existing funding schemes. The German system of feed-in priority and 20-year guaranteed prices, for example, is not geared towards the immediate reception of market price signals. A funding scheme assisting with start-up costs would be of greater help for cost-effective production than operating subsidies, which are fixed independently of the market price and thus make competition with other energy sources difficult.

3. The Commission's proposal significantly to broaden European regulation is also criticised.

The current system of regulatory oversight, organised largely on national lines, is neither inefficient nor does it preclude the intended creation of a European electricity market. Even given the fact that the European ACER Agency requires suitable staffing and funding to fulfil its functions, the transfer of the energy inspectorate would entail the creation of a huge new authority. For this reason, ACER has so far only been responsible for coordinating and advising the national regulatory authorities. In future it may be given other tasks.

4. The goal of a European dimension to security of supply is welcomed. A European-level task such as this can only be achieved with adequate interconnection capacities between the Member States. The sectoral review of existing national capacity mechanisms introduced by the Commission is a welcome development.

The rapporteur believes that the promotion of renewables must be given a high priority but that the associated problems of sustainable security of energy supply at affordable prices must not be disregarded.

5. Achieving the EU's climate goals requires a combination of measures whereby the impact of prioritised low-emission technologies as well as renewables will have to be calculated against high-emission technologies. It would therefore be a mistake to exclude generation from fossil fuels in the short term and on principle, as electricity generation from fossil fuels with the lowest possible emission levels will maintain an important role in the medium term in supplementing generation from regenerative sources.

6. The rapporteur believes that the Commission proposal for an energy policy comprising centralised and decentralised structures in equal measure is fundamentally sound. The market design envisaged must, however, enable the relevant transformation processes to be made without leading to market distortion or inappropriate investments. Such processes must not be anticipated or forced by policy; they must establish themselves on the market.

The fact that some Member States have already introduced capacity mechanisms to guarantee security of supply and to be able to ensure an adequate basic provision, given the need for flexibility as the proportion of renewables increases, must not be disregarded. The implementation of such capacity mechanisms should be preceded by a detailed analysis of the generation and supply situation at regional level, taking the contribution of neighbouring countries into account; should be available for cross-border use; and should only ensure sufficient capacity for security of supply.

7. The rapporteur in general supports the Commission's plan to grant price signals and their freest possible design the central guiding function on the market. This also applies to shortage prices, which influence the long-term decisions of investors and the short-term decisions and thus the flexible market behaviour of consumers. Regulated end-user prices should therefore be discontinued throughout Europe.

Wholesale price is today the main factor influencing decisions on investing in power stations. The Commission's assumption that private investors build power stations only in anticipation of a slightly lower number of maximum prices per year is a risky one, especially as there is no guarantee of predictability.

The electricity market relies on forecasts for generation and use, even if price spikes are expected in periods of extreme shortage, free from state intervention. These expectations are adjusted according to the real situation and provide market players with the incentive for active trading on the electricity market.

Shortage prices must, however, be accompanied by a secure environment for capital-intensive long-term investment. This applies not only to conventional power stations, grids and storage facilities but also to renewable energy. Following liberalisation of the electricity market, investment in conventional generation in Europe took place without long-term agreements. The inherent trust which this entailed was then undermined by regulatory intervention, even though it was up to the public sector to ensure the security and stability of market regulations.

8. The rapporteur recommends that the Commission test out pilot projects with a cross-border innovative market structure approach in order to establish larger regional markets. These might later be extended to other Member States.

The Pentalateral Energy Forum[1] might serve as a positive example of cross-border cooperation. The Agency for the Cooperation of Energy Regulators (ACER) has a crucial role to play here but must have sufficient resources to fulfil its coordinating function. Other fundamental changes to competences may compromise system security, since the current system of independent energy regulators operates effectively.
ACER might also include decision-making powers to a limited degree, for example when cross-border aspects are involved, in cases where national regulators fail to agree, when it establishes a method for harmonised system equivalence or when providing cooperation and support for national licensing procedures in energy projects of common interest.

9. The proposal to unify distribution grid charges and introduce unbundling for distribution grids with fewer than 100 000 users is, on the other hand, superfluous and counter-productive.

[1] 'Gemeinsamer Versorgungssicherheitsbericht' (Generation Adequacy Assessment) of 5.3.2015 by Germany, France, Austria, Switzerland, Belgium, the Netherlands and Luxembourg.