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# **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 (TFEU), and in particular Articles 114 and 194 thereof,
- having regard to the Paris Agreement of December 2015 concluded at the 21st Conference of the Parties (COP 21) to the UN Framework Convention on Climate Change,
- having regard to the Commission communication of 15 December 2011 entitled 'Energy Roadmap 2050' (COM(2011)0885),
- 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 of 9 April 2014 entitled 'Guidelines on State aid for environmental protection and energy 2014-2020'<sup>1</sup>,
- 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 15 July 2015 entitled 'Delivering a New Deal for Energy Consumers' (COM(2015)0339),
- 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,

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<sup>1</sup> OJ C 200, 28.6.2014, p. 1.

- 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<sup>1</sup>,
- 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 exchanges in electricity and repealing Regulation (EC) No 1228/2003<sup>2</sup>,
- 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<sup>3</sup>,
- having regard to Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council (‘Unfair Commercial Practices Directive’)<sup>4</sup>,
- having regard to Regulation (EU) No 256/2014 of the European Parliament and of the Council of 26 February 2014 concerning the notification to the Commission of investment projects in energy infrastructure within the European Union, replacing Council Regulation (EU, Euratom) No 617/2010 and repealing Council Regulation (EC) No 736/96<sup>5</sup>,
- 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<sup>6</sup>,
- having regard to Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, amending Council Directive 93/13/EEC and Directive 1999/44/EC of the European Parliament and of the Council and repealing Council Directive 85/577/EEC and Directive 97/7/EC of the European Parliament and of the Council<sup>7</sup>,
- having regard to the Third Energy Package,
- having regard to its resolution of 19 June 2008 on Towards a European Charter on the

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<sup>1</sup> OJ L 211, 14.8.2009, p. 1.

<sup>2</sup> OJ L 211, 14.8.2009, p. 15.

<sup>3</sup> OJ L 115, 25.4.2013, p. 39.

<sup>4</sup> OJ L 149, 11.6.2005, p. 22.

<sup>5</sup> OJ L 84, 20.3.2014, p. 61.

<sup>6</sup> OJ L 33, 4.4.2006, p. 22.

<sup>7</sup> OJ L 304, 22.11.2011, p. 64.

## Rights of Energy Consumers<sup>1</sup>,

- having regard to its resolution of 14 March 2013 on the Energy roadmap 2050, a future with energy<sup>2</sup>,
  - having regard to its resolution of 4 February 2014 on the local and regional consequences of the development of smart grids<sup>3</sup>,
  - having regard to its resolution of 14 October 2015 on Towards a new international climate agreement in Paris<sup>4</sup>,
  - 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<sup>5</sup>,
  - 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<sup>6</sup>,
  - having regard to its resolution of 10 September 2013 on making the internal energy market work<sup>7</sup>,
  - having regard to its resolution of 15 December 2015 on Towards a European Energy Union<sup>8</sup>,
  - having regard to its resolution of 15 December 2015 on achieving the 10 % electricity interconnection target – Making Europe’s electricity grid fit for 2020<sup>9</sup>,
  - having regard to Rule 52 of its Rules of Procedure,
  - having regard to the report of the Committee on Industry, Research and Energy (A8-0214/2016),
- A. whereas the Commission's plans with regard to the electricity market must lead to real market transformation, contribute to efficiency, security of supply, development of renewables and interconnectors, and ensure the completion of the European internal energy market;
- B. whereas the integration of energy markets, coupled with the integration of all market players, including prosumers, will contribute to achieving the Treaty goal of secure, affordable, efficient and sustainable energy;

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<sup>1</sup> OJ C 286 E, 27.11.2009, p. 24.

<sup>2</sup> OJ C 36, 29.1.2016, p. 62.

<sup>3</sup> Texts adopted, P7\_TA(2014)0065.

<sup>4</sup> Texts adopted, P8\_TA(2015)0359.

<sup>5</sup> OJ L 140, 5.6.2009, p. 16.

<sup>6</sup> OJ L 211, 14.8.2009, p. 55.

<sup>7</sup> OJ C 93, 9.3.2016, p. 8.

<sup>8</sup> Texts adopted, P8\_TA(2015)0444.

<sup>9</sup> Texts adopted, P8\_TA(2015)0445.

- C. whereas, in order to achieve the climate and energy targets, the energy system of the future will need more flexibility, which requires investment in all four flexibility solutions – flexible production, network development, demand flexibility and storage;
- D. whereas more than half of all the electricity in the EU is generated without producing greenhouse gases;
- E. whereas the integration of electricity markets must comply with Article 194 TFEU, according to which European energy policy shall ensure the functioning of the energy market and the security of energy supply, and promote energy efficiency savings, the development of renewable energy and the interconnection of energy networks; whereas defining the Member States' energy mix and the conditions governing the use of their energy resources remains a national competence;
- F. whereas positive experiences of multilateral cooperation serve as models for greater regional market responsibility (e.g. regional security coordination initiatives (RSCIs) such as Coreso and the Transmission System Operator Security Cooperation (TSC), the Pentilateral Energy Forum, the High Level Group for South-West Europe on interconnections, the Baltic Energy Market Interconnection Plan (BEMIP), the common multinational Nordic reserve and balancing markets, and market coupling in central and eastern Europe); whereas their design includes rules to ensure that capacity is allocated sufficiently in advance to provide investment signals in respect of less polluting plants;
- G. whereas a number of Member States anticipate inadequate generation capacity, which will pose a threat of blackouts in the near future unless the necessary back-up mechanisms are put in place,
- H. whereas national capacity markets make it harder to integrate electricity markets and run contrary to the objectives of the common energy policy, and should only be used as a last resort once all other options have been considered, including increased interconnection with neighbouring countries, demand-side response measures and other forms of regional market integration;
- I. whereas Europe is committed to successfully achieving the energy transition and especially to facilitating the integration of renewable energy sources, which implies new needs for flexibility and the implementation of market schemes dedicated to security of supply;
- J. whereas the objective of energy security defined by the Treaties will be essential for the consolidation of the Energy Union, and whereas instruments adequate to ensure it must therefore be preserved and/or implemented;
- K. whereas in order to make public investment as efficient as possible by taking the necessary measures to create a secure, sustainable and competitive energy market, it is vital to combine the European Fund for Strategic Investments with other specific sources of energy funding, such as the Connecting Europe Facility;
- L. whereas increased cooperation at regional level is indispensable, and should serve as a catalyst for deeper market integration at the European level;

- M. whereas energy taxes, high taxation costs, indiscriminate price regulation, high market concentration, administrative burden, subsidies, a lack of cross-border cooperation and interconnectors in some regions, and under-exploited demand-side management are preventing a functioning internal market in electricity and thus delaying the full market integration of renewable energy sources;
- N. whereas all market participants should contribute to system balancing in order to ensure maximum security of electricity supply at a reasonable cost for society and the economy;
- O. whereas a medium-term increase in the degree of interconnection between certain Member States – to 15 % subject to cost-benefit analysis – which addresses existing bottlenecks in a targeted way could improve security of supply and end energy islands; stresses that, in addition to the quantitative target, open access and the availability of interconnectors are also imperative if the remaining barriers to the functioning of the European electricity market are to be overcome;
- P. whereas the growing share of variable renewable energy sources in the electricity mix requires stable backup from flexible and sustainable energy sources, and flexible technologies such as storage and demand-response;
- Q. whereas energy storage is a key tool for bringing greater flexibility and efficiency to energy markets, but whereas there is still no regulatory mechanism in place making it possible to take advantage of an efficient storage system;
- R. whereas the International Energy Agency (IEA) recently came forward with meaningful recommendations in its ‘Re-Powering Markets’ study<sup>1</sup>;
- S. whereas a European energy market, if well designed and properly implemented, holds the potential to substantially boost European energy security and independence, in particular vis-à-vis major suppliers on which the Union is dependent;
- T. whereas the EU’s remaining energy islands need to be eliminated as a matter of urgency if a genuine energy market is to be created;
1. Welcomes the aforementioned Commission communication of 15 July 2015 on a new energy market design, and endorses the view that the transformed electricity market, coupled with the implementation of existing legislation, should enhance regional cooperation on all dimensions of energy supply and demand, and should focus on improved, more decentralised and more flexible markets, in order to ensure a well-regulated, market-based system which is capable of delivering on all of the EU's established energy and climate goals for 2030;
2. Considers that the innovative elements which have necessitated a redesign of the energy market are:
- the increased presence of renewables with market-driven remuneration;

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<sup>1</sup> <http://www.iea.org/publications/freepublications/publication/REPOWERINGMARKETS.pdf>

- stronger integration of national markets through the development of interconnections;
  - the development of smart grids and new decentralised generation technologies, which will allow consumers to play a more active role as both consumer and producer, and will foster better demand-side management;
3. Welcomes the fact that the new Energy Union strategy is designed to make the EU a leader in renewable energies, and notes that achieving this objective will require a fundamental shift in Europe's electricity system;
  4. Welcomes the fact that the new Energy Union strategy brings fresh benefits for energy consumers, offers them a much wider range of options for participating in energy markets and ensures better consumer protection;
  5. Calls for the existing regulatory framework for European markets to be adjusted in order to allow a growing share of renewable energy sources and to close existing cross-border regulatory gaps; stresses that a new market design for electricity as part of an increasingly decentralised energy system must be based on market principles, which would stimulate investment, ensure that SMEs have access to the energy market and unlock a sustainable and efficient electricity supply through a stable, integrated and smart energy system; considers that this framework should promote and reward flexible storage solutions, demand-side response technologies, flexible generation, increased interconnections and further market integration, which will help to promote a growing share of renewable energy sources and integrate them into the market; stresses that security of supply and decarbonisation will require a combination of liquid short-term (day-ahead and intraday) markets and long-term price signals;
  6. Considers the full implementation of the Third Energy Package in all Member States to be one of the most important steps towards a European energy market; urges the Commission, therefore, to secure the implementation of the current regulatory framework;
  7. Calls for the new electricity market design to embrace a holistic, future-oriented approach by recognising the increasing importance of so-called prosumers in the decentralised production of electricity through renewables; calls on the Commission, in this context, to guide a participative process aimed at reaching a common practical understanding of the definition of prosumers at the EU level; asks the Commission to include a new chapter on prosumers in the revised Renewable Energy Directive in order to address the main barriers and boost investment in self-generation and self-consumption of renewables;
  8. Believes that the best way to move towards an integrated EU-wide electricity market is to determine strategically the necessary level of integration which should be achieved, to restore confidence among market players and, especially, to ensure proper implementation of existing legislation;
  9. Calls on the Member States to be more proactively involved in designing a flexible and decentralised European internal market in electricity in order to enhance coordination between national transition strategies and avoid undermining the objectives of



Articles 114 and 194 TFEU by means of permanent capacity markets and mechanisms;

10. Believes that a strengthened European internal market in electricity is possible, on the basis of stronger price signals on the wholesale market through prices that reflect actual scarcity and surplus of supplies, including price spikes, which, along with other measures, play the role of investment signals for new capacity and flexibility services; recalls that the transition to scarcity pricing implies improved mobilisation of demand response and storage, along with effective market monitoring and controls to address the risk of market power abuse, in particular to protect consumers; believes that consumer engagement is one of the most important objectives in the pursuit of energy efficiency, and that whether prices that reflect the actual scarcity of supply in fact lead to adequate investment in electricity production capacity should be evaluated on a regular basis;
11. Emphasises that the internal EU electricity market is also influenced by imports from third countries with fundamentally different legal and regulatory systems, including as regards nuclear safety and security and environmental and climate change requirements; calls on the Commission to take this into due account in working on new energy market design, so as to ensure a level playing field between power producers in EU and non-EU countries and to provide European consumers with secure, sustainable and affordable energy;
12. Considers that investments in the field of energy require a stable and predictable long-term framework, and that the challenge EU has to face will be that of instilling confidence in the outcome of the new rules;
13. Calls for appropriate transition periods, with detailed cost-benefit analyses, for all the proposals under discussion;
14. Stresses the importance of a common analysis of system adequacy at regional level, facilitated by the Agency for the Cooperation of Energy Regulators (ACER) and the European Network of Transmission System Operators (ENTSO-E), and calls for the transmission system operators (TSOs) of neighbouring markets to devise a common methodology, approved by the Commission, to that end; highlights the enormous potential of strengthened regional cooperation;
15. Stresses the importance of coordinated long-term planning for the efficient development of transmission infrastructure and electricity markets in Europe; highlights, in this connection, the need for better regional cooperation and notes the success of existing regional market approaches such as Nord Pool;
16. Stresses the right of Member States to determine the conditions governing the use of their energy resources in their national energy mix, subject to the Treaty provisions stipulating that European energy policy shall ensure the functioning of the energy market, ensure security of energy supply, promote energy efficiency and savings and the development of renewable forms of energy and promote the interconnection of energy networks; emphasises that regional cooperation would allow cost savings and benefits for the European energy system and should be based on a standard, transparent regional system methodology for assessing their long-term adequacy needs, and for agreeing on the action to be taken in the event of an electricity crisis, in particular when

such a crisis has cross-border effects; calls on the Commission, therefore, to propose a revised framework to that end; also calls on the Commission to reflect this in its legislative proposal;

17. Recalls that those Member States which choose to use nuclear energy should do so in compliance with EU safety standards, internal energy market regulations and State aid rules;
18. Notes that energy efficiency savings, demand-side responsiveness, energy storage capacity and network expansion, in particular through smart grids, efficient use of interconnections and the further expansion and development of national networks, are indispensable with a view to completing the internal market in electricity with a growing share of renewables, and recalls the 'efficiency first' principle, whereby consideration must first be given to demand-side investment before network and supply investment; considers it regrettable that there are still large gaps in the interconnections within and between some Member States, leading to network bottlenecks and significantly impairing operational security and cross-border energy trading; regrets the practice of limiting transmission capacity in order to balance national production and as a means of dealing with internal bottlenecks; calls for electricity interconnection objectives to be differentiated by region, reflecting real market flows, to be subject to relevant cost-benefit analysis and to be based on the ENTSO-E 10-year network plan, as long as the minimum objectives set for the EU are fulfilled; considers that, to this end, it is also very important to counteract uncoordinated loop flows, especially in the central and eastern Europe region; stresses that, once built, the availability of cross-border capacity is equally important, given the increasing levels of capacity curtailment by Member States;
19. Notes that new approaches should be developed with a view to overcoming bottlenecks and achieving a smart distribution grid that allows the smooth integration and provision of services by decentralised generators, prosumers and consumers;
20. Reiterates its support for EU regional interoperability targets; recognises, however, that suboptimal use of existing infrastructure threatens the vitality of such targets; stresses that optimal use of existing infrastructure is crucial for a European energy market, and asks the Commission, therefore, to address this issue in any upcoming proposal for legislation;
21. Calls for optimised implementation and enforcement of the legislative framework for the internal electricity market, and for the Commission and ACER to further address issues in the wholesale markets where current practices are not consistent with Regulation (EC) No 714/2009; calls on ACER to increase regulatory oversight of the restraint of existing interconnector capacity;
22. Notes that a targeted and ambitious network upgrade and the removal of structural network bottlenecks are important preconditions for realising the internal market in energy and thereby stepping up competition; takes the view that a configuration of price zones should be discussed, with the participation of all relevant stakeholders and taking into account ACER competences as well as the ENTSO-E bidding zone review; stresses that the splitting of bidding zones as a last resort could be a sensible market economy approach with a view to reflecting actual electricity shortages in certain regions; takes

the view that in closely integrated electricity networks the allocation of price zones should be decided in conjunction with all the neighbouring countries concerned, in order to prevent both the inefficient use of networks and the reduction of cross-border capacity, which is incompatible with the internal market;

23. Understands that, because of the low price of energy on the wholesale markets and its impact on investment, and the need to develop mechanisms for adapting production capacity to the flexibility required to respond to the demand side, several Member States, in the absence of a European approach and on account of specific components of their consumption market, have had to develop capacity mechanisms;
24. Is sceptical of purely national and non-market-based capacity mechanisms and markets, which are incompatible with the principles of an internal energy market and which lead to market distortions, indirect subsidies for mature technologies and high costs for end-consumers; stresses, therefore, that any capacity mechanism in the EU must be designed from the perspective of cross-border cooperation following the completion of thorough studies on its necessity, and must comply with EU rules on competition and State aid; believes that better integration of national energy production into the EU energy system and the reinforcement of interconnections could reduce the need for, and cost of, capacity mechanisms;
25. Calls for cross-border capacity mechanisms to be authorised only when the following criteria, *inter alia*, are met:
  - a. the need for them is confirmed by a detailed regional adequacy analysis of the production and supply situation, including interconnections, storage, demand-side response and cross-border generation resources, on the basis of a homogeneous, standardised and transparent EU-wide methodology which identifies a clear risk to uninterrupted supply;
  - b. there is no possible alternative measure that is less costly and less market-intrusive, such as full regional market integration without restriction of cross-border exchanges, combined with targeted network/strategic reserves;
  - c. their design is market-based and is such that they are non-discriminatory in respect of the use of electricity storage technologies, aggregated demand-side response, stable sources of renewable energy and participation by undertakings in other Member States, so that there is no cross-border cross-subsidisation or discrimination against industry or other customers, and it is ensured that they only remunerate the capacity strictly necessary for security of supply;
  - d. their design includes rules to ensure that capacity is allocated sufficiently in advance to provide adequate investment signals in respect of less polluting plants;
  - e. sustainability and air quality rules are incorporated in order to eliminate the most polluting technologies (consideration could be given to an emissions performance standard in this connection);
26. Stresses that, in addition to the new energy market design, the upcoming reviews of the Renewable Energy Directive and the Energy Efficiency Directive are key to unlocking

the opportunities offered by energy storage;

27. Believes that developing new and existing electricity storage solutions will be an indispensable element of the energy transition, and that new market design rules should help to put in place a supportive framework for the various technologies involved;
28. Considers that energy storage has numerous benefits, not least enabling demand-side response, assisting in balancing the grid and providing a means to store excess renewable power generation; calls for the revision of the existing regulatory framework to promote the deployment of energy storage systems and other flexibility options, which allow a larger share of intermittent renewable energy sources (RES), whether centralised or distributed, with lower marginal costs to be fed into the energy system; stresses the need to establish a separate asset category for electricity or energy storage systems in the existing regulatory framework, given the dual nature – generation and demand – of energy storage systems;
29. Calls, therefore, for a new market design to address technical barriers and discriminatory practices in network codes for energy storage, and for fees and taxes to be applied fairly, avoiding double costs for the charging and discharging of energy and resulting in a market which rewards fast-reacting, flexible sources; suggests that if and when storage options become more abundant and affordable, the rationale for capacity markets will quickly disappear;
30. Stresses the need to promote the deployment of energy storage systems and to create a level playing field on which energy storage can compete with other flexibility options, on the basis of a technology-neutral design of the energy market;
31. Calls, therefore, for a technology-neutral design of the energy market to give various renewable-based energy storage solutions, such as lithium-ion batteries, heat pumps and hydrogen fuel cells, a chance to complement RES generation capacity; calls, also, for the establishment of clearly defined mechanisms in order to take advantage of excess production and of curtailment;
32. Calls on the Commission to clarify the position of storage in different steps of the electricity chain, and to allow transmission and distribution operators to invest in, use and exploit energy storage services for the purpose of grid balancing and other ancillary services;
33. Notes the increasing range of energy and ancillary services that energy storage may provide in the future; calls, therefore, for a definition of electricity storage that would cover its dual nature (electricity uptake and release), and for the removal of regulatory barriers to electricity storage;
34. Calls for the current regulatory framework to be revised in order to promote the use of energy storage systems and other flexibility options with the aim of feeding into the energy system, on a centralised or decentralised basis, a larger share of renewable intermittent energy sources with low marginal costs;
35. Calls for a definition of an electricity-system energy storage device to be incorporated into the regulatory framework;

36. Calls for a separate category for electricity storage systems to be created in the current regulatory framework alongside generation, grid operation and consumption;
37. Stresses that gas interconnections and the coordination of national emergency measures represent methods through which Member States can cooperate in the event of severe gas supply disruptions;
38. Notes that cross-border competition could bring benefits for consumers through the presence of several energy suppliers in a decentralised market, leading to the emergence of innovative new energy service companies;
39. Calls for the further development of the energy-only market, with costs and benefits to be shared fairly by all energy users and producers, on the basis of the consistent application of existing legislation, the targeted upgrade of transmission and distribution infrastructure, greater regional cooperation, better interconnection, energy efficiency, demand-response schemes and storage, which can send the right long-term signals to maintain the electricity system securely and develop renewable energy sources, while taking into account the particular features of the electricity markets of regions that are isolated from the national electricity system, and thus promoting energy diversification and encouraging greater competition in order to increase security of supply;
40. Stresses that energy efficiency is a core principle of the Energy Union strategy, since this is an effective way of reducing emissions, generating savings for consumers and reducing the EU's dependency on fossil fuel imports;
41. Recognises that energy flexibility and capacity are currently essential and should be properly evaluated as part of a future-proof market design, given that they are complementary elements;
42. Stresses that a European electricity market must be market-driven; emphasises, in this connection, that dynamic price formation has a signal and guidance function and is doubtless an important factor in efficiency, and therefore in ensuring a well-functioning electricity market;
43. Points out that time-varying electricity prices can trigger demand-side flexibility, which can help balance demand and supply and smooth out variable renewable production patterns; stresses the importance, in this connection, of electricity prices reflecting actual electricity costs;
44. Notes that the expectation of future price surges can create incentives for producers and investors to invest in flexible solutions such as energy storage, energy efficiency, demand-side management, renewable production capacity, high-efficiency modern gas-fired power stations and pumped-storage power stations; urges that restraint be shown as regards intervention in the wholesale market, even in the event of large price surges; calls for any planned phasing-out of regulated consumer prices which are below the cost of production to take into account the needs of vulnerable consumers at risk of energy poverty;
45. Stresses that full integration of renewables into the electricity market is essential; calls for efforts to encourage and maximise their participation in balancing services, and

considers that shortening gate closure times, aligning trading intervals with the imbalance settlement period and allowing the submission of aggregated bids from generators located in different Member States would contribute significantly to achieving this aim;

46. Calls for the completion of the integration of internal market and balancing and reserve services by fostering liquidity and cross-border trading in all market timeframes; urges that efforts to achieve the ambitious goals of the Target Model regarding intraday and balancing markets be speeded up, starting with the harmonisation of gate closure times and the balancing of energy products;
47. Calls on the Commission to submit proposals to allow instruments to mitigate the revenue risk over 20 to 30 years, so that investments in new low-carbon generation are actually driven by the market, such as co-investments with contractual sharing of risks between large consumers and electricity producers, or a market for long-term contracts based on average cost pricing;
48. Calls for power supply and ancillary services contracts to be awarded on a free-market basis; states that such open tendering, whether organised nationally or on a cross-border basis, should be technology-neutral and also make it possible for energy storage operators to take part;
49. Supports the increasing share of renewables in the EU; stresses the importance of stable and cost-effective renewable support schemes for long-term investment that remain responsive and adaptable in the short term and are tailored to national needs and circumstances, allowing the gradual phasing-out of subsidies for mature renewable technologies; welcomes the fact that a number of renewable energy technologies are rapidly becoming cost-competitive with conventional forms of generation; notes that care should be taken to ensure that support schemes are well designed and that any impact on energy-intensive industries at risk of carbon leakage is kept to a minimum;
50. Stresses the importance of digital technologies in sending price signals that allow demand-response to work as a source of flexibility; calls, therefore, for an ambitious strategy with regard to digitisation in the energy sector, from the deployment of smart grids and smart meters to the development of mobile applications, online platforms and data hubs;
51. Notes that under the 2020 framework the Member States must meet specific quantitative objectives for the share of renewables in final energy consumption, irrespective of the market situation, and stresses, therefore, the importance of promoting renewables through policies that focus on competition and cost efficiency, while recognising that there are many different renewable technologies, which are at different stages of maturity and have different characteristics and therefore cannot be subject to a one-size-fits-all approach; recalls the important role of the EU Emissions Trading System (ETS) in this connection, and regards the promotion of investment as being more compatible with the market than fixed feed-in tariffs and general preferential treatment;
52. Insists that, with the increasing technical maturity and widespread use of renewable energy sources, subsidy rules must be geared to market conditions, such as feed-in

- premiums, in order to keep costs for energy consumers within reasonable bounds;
53. 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<sub>2</sub> and fuel prices can give more support to the expansion of renewables;
  54. Recalls that, as from 2016, the 2014 State aid guidelines require large RES generators to take on balancing responsibilities, which are defined as an obligation on producers to compensate for short-term deviations from their previous delivery commitments in cases where a liquid intraday market exists; stresses that, in the event of departure from the schedule announced by the operator, an appropriate compensatory energy price should be charged; recalls the existing provisions of the Renewable Energy Directive, which grant priority access and dispatch for renewables; suggests that these provisions should be evaluated and revised once a redesigned electricity market has been implemented which ensures a more level playing field and takes greater account of the characteristics of renewable energy generation;
  55. Calls, bearing in mind the subsidiarity principle, for coordinated action by the Member States, starting at regional level, in connection with the further expansion of renewables, in order to boost the economic efficiency of the energy market with a view to attaining the common European objectives and strengthening the stability of the grid; considers that a Member State should not take a unilateral decision which has a substantial impact on neighbouring states without broader discussion and cooperation at the regional or EU level; recalls that renewable energy sources have most of the time a strong local component; calls on the Commission to work towards a more convergent European framework for the promotion of renewables;
  56. Recommends that Member States give consideration to the regulatory framework encouraging end-users to turn to self-production and local energy storage;
  57. Is convinced that, alongside renewables, all safe and sustainable energy sources which serve the objective of gradual decarbonisation in line with the recent COP 21 global agreement will continue to have a role to play in electricity generation;
  58. Draws attention to the importance of coordination at EU level in defining concession regimes for the use of hydroelectric power and opening up the sector to competition, in order to avoid market distortions and promote the efficient use of resources;
  59. Notes that reorganising the electricity market will respond to consumer expectations by providing real benefits arising from the use of new technologies, in particular as regards renewable energy with low carbon dioxide emissions, resulting in interdependence among Member States in relation to energy security;
  60. Emphasises that, in the absence of a fully interconnected electric grid system with adequate storage possibilities, conventional baseload generation remains essential for maintaining security of supply;
  61. Stresses that greater consideration must be given to distribution system operators' local and regional responsibility for the Energy Union, given that the energy landscape is

becoming more and more decentralised, 90 % of renewables are connected to the distribution grid and distribution system operators (DSOs) are locally embedded; recalls the importance of all Member States implementing the requirements of the Third Energy Package with regard to the unbundling of transmission and distribution systems, especially in light of the increased role of DSOs in data access and management; stresses that greater consideration must be given to the TSO-DSO interface; considers that the implementation of appropriate business models, dedicated infrastructure and harmonised support could foster an effective kick-start of demand-side response in each Member State and across borders;

62. Urges the Member States to establish the judicial and administrative mechanisms needed to spur the involvement of local communities in electricity generation by making them stakeholders in small-scale renewable electricity generation projects;
63. Stresses that in most cases renewables are fed in at distribution system level, close to the level of consumption, and therefore calls for DSOs to play a greater role as facilitators and to be more closely involved in the design of European regulatory framework and in the relevant bodies when it comes to drawing up guidelines on issues of concern to them, such as demand-side management, flexibility and storage, and for closer cooperation between DSOs and TSOs at the European level;
64. Calls for measures to incentivise the necessary investment in smart grid technologies and in distribution systems, with a view to better integrating growing quantities of renewables and being better prepared for digitisation; considers, in this connection, that DSOs must be given a greater role in collecting and sharing data, and that data protection must be guaranteed in all circumstances, bearing in mind the experience gained in countries with full roll-out of smart meters;
65. Stresses the importance of the regional approach in building the missing electricity infrastructure that is crucial for the security of sustainable electricity supply, with a view to eliminating the bottleneck in the (power) network and completing the internal energy market;
66. Regards DSOs as neutral market facilitators that receive 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, thus ensuring that consumers remain in control of their data; considers that DSOs foster the development of the market and play an increasingly important role as active system managers, technological enablers, data managers and innovators; considers that clear rules are required to ensure that DSOs act as neutral market facilitators; points out that DSOs, among other market participants, can also support local authorities by providing them with data to enable energy transition within their territory;
67. Stresses the need to speed up permit issuing for energy infrastructure projects at all decision-making levels;
68. Takes the view that it makes sense to step up cooperation within and between regions under the coordination of ACER and with the cooperation of ENTSO-E, particularly as regards evaluating cross-border impacts, but without the Member States abandoning their responsibility for security of supply; stresses that cross-border cooperation and



interconnectors are key to ensuring security of supply;

69. Welcomes the work of ACER and calls for the agency to be provided with sufficient financial and human resources to carry out its current and future tasks and duties and to be able to plan strategically within a reliable mid-term horizon;
70. Notes the importance of effective, impartial and ongoing market monitoring of European energy markets as a key tool to ensure a true internal energy market characterised by free competition, proper price signals and supply security; underlines the importance of ACER in this connection, and looks forward to the Commission's position on new and strengthened powers for ACER on cross-border issues;
71. Calls for ACER to support and coordinate efforts towards increased regional cooperation regarding system security and adequacy; takes the view that the transfer of competences for security-of-supply issues to supranational bodies should take place only if it allows clear gains for the whole electricity system and is accompanied by sufficient accountability;
72. Calls for ACER to be given decision-making power as regards the coordination of increased regional cooperation in respect of cross-border and interregional issues, in particular in the context of RSCIs, with a view to optimising energy resource management, for such coordination to accommodate national specificities, to be cost-based and to apply market criteria, and for the development of adequate tools to monitor the energy market effectively with a view to creating the Energy Union without necessitating the creation of a massive new authority;
73. Notes that the Commission proposals for a new energy market design are confined to the power sector; calls on the Commission to analyse the opportunity to review the design of the natural gas market in order to address challenges in the gas sector (e.g. changing EU gas demand, stranded assets, pricing systems, further market integration and the respective roles of ACER and the European Network of Transmission System Operators for Gas (ENTSO-G));
74. 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<sup>1</sup> 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.

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<sup>1</sup> 'Gemeinsamer Versorgungssicherheitsbericht' (Generation Adequacy Assessment) of 5.3.2015 by Germany, France, Austria, Switzerland, Belgium, the Netherlands and Luxembourg.

## RESULT OF FINAL VOTE IN COMMITTEE RESPONSIBLE

<b>Date adopted</b>	14.6.2016
<b>Result of final vote</b>	+: 44 -: 13 0: 5
<b>Members present for the final vote</b>	Zigmantas Balčytis, Bendt Bendtsen, Xabier Benito Ziluaga, José Blanco López, Jerzy Buzek, Edward Czesak, Christian Ehler, Fredrick Federley, Adam Gierek, András Gyürk, Hans-Olaf Henkel, Eva Kaili, Kaja Kallas, Barbara Kappel, Krišjānis Kariņš, Jeppe Kofod, Zdzisław Krasnodębski, Miapetra Kumpula-Natri, Ernest Maragall, Edouard Martin, Angelika Mlinar, Dan Nica, Angelika Niebler, Morten Helveg Petersen, Miroslav Poche, Carolina Punset, Michel Reimon, Herbert Reul, Algirdas Saudargas, Sergei Stanishev, Neoklis Sylikiotis, Dario Tamburrano, Patrizia Toia, Evžen Tošenovský, Claude Turmes, Vladimir Urutchev, Kathleen Van Brempt, Henna Virkkunen, Martina Werner, Lieve Wierinck, Flavio Zanonato
<b>Substitutes present for the final vote</b>	Pascal Arimont, Simona Bonafè, Rosa D'Amato, Cornelia Ernst, João Ferreira, Françoise Grossetête, Carlos Iturgaiz, Benedek Jávor, Werner Langen, Svetoslav Hristov Malinov, Vladimír Maňka, Luděk Niedermayer, Markus Pieper, Anneleen Van Bossuyt
<b>Substitutes under Rule 200(2) present for the final vote</b>	Daniela Aiuto, Reimer Böge, Lara Comi, Jakop Dalunde, Eleonora Evi, Arne Lietz, Axel Voss