

Clean Energy Package: Promising market proposals, but some issues to be solved

In many respects, the European Commission proposals point in the right direction and will bring significant benefits to consumers by facilitating the integration of renewable energy into the system, improving effectiveness of price signals, integrating wholesale and retail markets, and providing an EU framework to capacity mechanisms and cross-border participation. However, several articles in the Electricity Directive and in the Electricity Regulation raise our concerns on the effects that the EC proposals will have on markets, grids and eventually end consumers. We highlight these issues below.

Proposals go in the right direction but we have a few important concerns

Restrictions for TSOs to control or own assets providing ancillary services (EI. Directive Art. 54)

- The current Commission proposals would prevent TSOs from owning and/or controlling, directly or indirectly, assets that provide ancillary services. Exceptions for non-frequency ancillary services (steady state voltage control, inertia, fast reactive current injection, black-start capability) would be possible but only after a long and costly process.
- Already today, to fulfil their responsibility to maintain grid stability, TSOs own or operate facilities which de facto provide ancillary services, either as main purpose or as a by-product of their operations, without any negative impact on the market. These facilities include for instance compensating devices, reactors, HVDC cables, capacitors, transformers, or even power lines, all of which are essential elements of the transmission grid.
- As things stand, preventing the ownership and control of such facilities by TSOs will create an extremely burdensome process with no tangible consumer benefits. The effect of these proposals would be to constrain TSOs ability to operate the grid, to ensure security of supply, to connect grid users and would ultimately increase system costs. Moreover, it would create a lack of coordination between maintenance and system operation to the detriment of the overall efficiency of the grid.
- ENTSO-E does not dispute the fact that the ancillary services market should be open to the largest possible range of players and operate under the supervision of regulators or national policy-makers to prevent any market abuse. The present requirements of the Directive are however disproportionate, lead to risks for the operational security, bring no benefits to consumers and should therefore be significantly amended. Rather than including such far-reaching limitations, ENTSO-E proposes to empower national regulators or governments to oversee that any TSO involvement in such assets is proportionate to system needs and efficient in the interest of end-consumers. This would prevent any form of conflict of interest and ensure that service is provided at the lowest cost for consumers.

Assets providing non-frequency ancillary services are essential elements of the transmission system

Putting restrictions on ownership/control of assets providing ancillary services would be disproportionate, can affect system security and in many cases increase costs for consumers

Solution: Regulatory oversight, instead of limitations on TSOs ownership and control, ensures most efficient solution for end consumers

Restriction on the use of congestion income (Electricity Regulation Art. 17)

- The Commission proposes to scrap the possibility for TSOs to use congestion income to reduce the level of transmission tariffs. ENTSO-E fully supports the Commission's objective to invest in and maintain cross-border transmission capacity for the benefit of European welfare. However, the present proposals could actually have the opposite effect and reduce incentives for interconnectors.
- Today, cross-border investments are, in many cases, funded by national TSO tariffs, which provide financial leverage to foster investments. It is therefore only logical that the corresponding congestion income from interconnectors should flow back to grid users

The possibility to reduce tariffs with congestion income is key for the public acceptance of new grid projects

through a reduction of grid tariffs. This helps ensuring public acceptance since the revenues from congestion eventually go back to energy consumers.

- Conversely, “not giving the money back” would undermine citizens’ support to fund new investments in interconnectors. If congestion income cannot be used anymore for tariff reduction, it is unlikely that national regulatory authorities will allow the funding of investments in cross border interconnectors through tariff increases. Therefore, the funding of new interconnectors would be solely dependent on the amount of congestion income. This could hamper the overall funding for interconnectors; firstly, because it is hard to predict long-term evolutions of congestion income and, secondly, because some interconnectors lead to increased social welfare without necessarily increasing overall congestion income.
- In order to foster better use of existing interconnectors and new investments, a sufficiently wide range of options should remain available, including using congestion income for tariff reduction. This would allow national regulatory authorities to implement the solution which best suits national laws, standards and rules, taking into account the specific situation of the TSO. It would also ensure that European consumers are fully behind interconnector projects and can benefit from these.

Not allowing the use of congestion income to reduce tariffs could lead to higher financial risks and ultimately less investments

Balancing (Electricity Regulation Art. 5)

- ENTSO-E sees a very significant opportunity in enhancing and integrating balancing markets to deliver cheaper balancing services to European consumers. However, we are concerned that the proposed provisions – some of which are not very well aligned with the draft Electricity Balancing Guidelines (EBGL) – will constrain these opportunities and ignore some of the specificities of national market designs, with excessive costs for end-consumers.
- The draft EBGL, which is about to be adopted by the EU Institutions, is the result of four years of long discussions and negotiations between the Commission, Member States, TSOs, regulators, and energy stakeholders. As such, its provisions set an ambitious but yet realistic and consensual pathway to integrate European balancing markets.
- Deviating from such an agreed framework – as proposed by the new Electricity Regulation – would risk disrupting the ongoing implementation work by reopening endless discussions. The most troublesome elements of the proposed Regulation relate to:
 - The geographical scope (regional) of reserve sizing is in conflict with the national legal framework: sizing of reserves is an essential element of secure system operation for which national TSOs are liable.
 - The geographical scope of (regional) reserve capacity procurement may well not be the ideal geographical allocation for reserve capacity procurement.
 - There should be no derogation from balancing responsibility as agreed in the EBGL. Derogations distort market functioning and lead to increasing costs to balance the system, ultimately borne by consumers.
 - Access to balancing markets should be subject to the prequalification requirements of the System Operation Guideline to avoid cases of unreliable providers.
 - The current provisions only allow for day-ahead and intraday trading, when balancing services are often more expensive to procure. Longer-term procurement for a certain part of the reserves should also be allowed.
- Whilst the aspiration to enhance balancing should therefore be supported, it will be important to amend the above proposals to ensure that this effort does not hamper the ongoing step-wise implementation or increasing costs by ignoring local specificities.

We support enhancing and integrating balancing markets in line with the EBGL

The EC proposals risk disrupting ongoing implementation, ignoring the national dimension of system balancing liability, and introducing inefficient derogations

Requirements for Capacity Calculation (Electricity Regulation Art. 14)

- ENTSO-E and TSOs are actively engaged in implementing regionally harmonised capacity calculation methods in the whole European system aimed at optimizing the availability and use of the transmission infrastructure, as part of their obligation deriving from the Capacity allocation and congestion management Guideline. Capacity calculation should take into account the full complexity of load flows in interconnected networks and its implementation will thus lead to a more efficient calculation and allocation of cross-border capacities to the benefit of European social welfare.
- However, the EC proposals in the new draft Electricity Regulation require no consideration of internal congestions nor loop flows within the capacity calculation process. In addition, they impose an obligation to TSOs to use preventive re-dispatch and countertrading to maximize available cross-border capacity.
- These provisions would oblige TSOs to ignore the physical flows that are an inherent part of the effective capacity calculation, increase the differences between the system reality on one side and the commercial exchanges on the other. They would lead to higher re-dispatch costs and risks related to possible unavailability or inexistence of necessary remedial actions to cope with congestions.

Capacity calculation must be based on physical reality

EC proposals would lead to higher re-dispatch costs and risks

Capacity Mechanisms (Electricity Regulation Art. 23 and Art. 21)

- The draft Regulation recognises the potential need for capacity mechanisms to address adequacy concerns and aims at ensuring cross-border participation, which is a welcomed development. However, some limitations on the design of capacity mechanisms could decrease the effectiveness and increase costs to ensure security of supply.
- Moreover, to preserve Member States' subsidiarity in deciding on their security of supply and generation mix, national responsibilities should not be ignored. Firstly, European adequacy assessments should only be complementary to national assessments when establishing the need-case for capacity markets. Secondly, the decision on the amount of cross-border capacity for the participation of foreign capacity should be let to TSOs rather than assigned to Regional Operation Centres.
- As regards the cross-border dimension of capacity markets, we consider that the possible direct participation of interconnectors (as an alternative option to participation of foreign generation/demand capacity providers) should also remain open in cases where cross-border capacity is scarce. This would provide direct revenues of capacity mechanisms where they are needed the most for ensuring resource adequacy in the region.

Limitations on the introduction and design of capacity mechanisms could increase costs to ensure security of supply

Interconnectors should be allowed to participate in capacity mechanisms in specific cases to avoid hampering cross-border investments.