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BUSINESSEUROPE'S VIEWS ON ELECTRICITY MARKET REGULATION**CAPACITY MECHANISMS AND RESOURCE ADEQUACY****➤ *Removing distortive nature of capacity mechanisms and enhancing resource adequacy in Europe***

BusinessEurope welcomes the Commission's views on the role of capacity mechanisms in Europe. The approach involves several dimensions, from the requirement of full implementation of the acquis to the removal of all regulatory distortions. Hence, member states should ensure that capacity mechanisms comply with the internal energy market, have least distortive effects and would not disincentivise interconnections. This includes obligations for all capacity mechanisms to be open to cross border participation and demand-side response, to be technology neutral and to be derived based on shared reliability standards.

BusinessEurope stresses that member states and the European Commission have to work together to ensure other options are exhausted before capacity mechanisms are pursued. They should also be limited in time and fully comply with the state aid guidelines. Lastly, it is also important that the impact on competitiveness of energy-intensive industries exposed to international competition is duly assessed and, where appropriate, that those sectors are shielded from costs of these mechanisms.

In terms of the resource adequacy, BusinessEurope supports an enhanced system of monitoring by member states in their territory, based on the European assessment of capacity management and planning. At the same time, they would have an obligation to cope with any kind of distortions and bottlenecks that may lead to resource adequacy concerns. Combined use of adequacy assessments on different levels shall contribute to informed decisions at EU and national level on market design.

The ultimate goal of an EU-wide solution has the potential to contribute to an efficient use of resources and capacities. This implies a common methodology and closer cooperation among involved transmission system operators (TSOs) and national regulatory authorities (NRAs), as well as an adequate level of cross border interconnection. Combined use of adequacy assessments on different levels shall contribute to informed decisions at EU and national level on market design.



- *In particular, BusinessEurope supports the following amendments:*
 - *Article 18 (Resource adequacy): 839, 845, 853, 57, 878, 59,60,61,62*
 - *Article 18a (Capacity mechanisms rules): 63 (except for the specific part of the paragraph 3, where we do not support the priority of the strategic reserve)*
 - *Article 19 (European resource adequacy assessment): 64, 891, 65, 895, 67, 898, 68, 903, 69, 909, 910, 923.*
 - *Article 20 (Reliability standard): 934, 938, 940, 71.*
 - *Article 23 (Design principles for capacity mechanisms): 72, 73, 74, 1088, 1102.*
 - *Article 24 (Existing mechanisms): 77, 1108.*

➤ ***Accelerating the transition from coal, without putting security of supply at risk***

BusinessEurope supports the need to progressively phase out coal from the EU power generation market. The transition from coal-fired to gas-fired power plants, together with the deployment of other technologies, brings stronger benefits on flexibility to the power market in particular with the growing share of intermittent renewable energy sources. To do so, BusinessEurope prefers market-based mechanisms such as carbon markets.

With regard to proposed rule of the 550g CO₂/kWh (Emission Performance Standard) for capacity mechanisms, we remained concerned about its impact. Such system risks undermining the EU ETS due to double regulation. Furthermore, the European Commission has failed so far to bring sound evidence on the expected impacts of the proposed rule i.e. in terms of achieving EU emissions reduction objectives, costs implications and impacts on security of supply on the EU power market.

However, should co-legislators agree on a EPS rule, it is of utmost importance to adjust the text proposal in order to mitigate the impact, in particular on energy costs and security of supply.

REGIONAL COOPERATION

➤ ***Bringing more Europe into power transmission***

BusinessEurope calls for more cooperation and integration of the power system operation over borders. A more integrated approach to transmission system operation is necessary given the expected medium- to long-term transformation of the European electricity system, as well as the obligations stemming from the EU network codes.

While respecting the adopted System Operation Guideline and the existing Regional Security Coordination initiatives, it is necessary to further enhance the system coordination towards operation on the regional level. Bottom-up collaboration of transmission system operators (TSOs), with gradual increase of competences at



regional level, might be the first important step. In the longer-term, the EU should thus go beyond coordinated actions and recommendations to take full benefit of the regional level, without violating operational security.

BusinessEurope also calls on policy makers to increase the transparency of the actions on the transmission operators' side. Any deviation from the recommendations or coordinated actions shall be published and sufficiently justified by the relevant TSO.

In this sense, BusinessEurope takes the following views to enhance regional cooperation of transmission system operators:

- *BusinessEurope does not support the Commission proposal on Regional operational centres (ROCs) and calls on setting up the Regional coordination centres (RCSs), building upon the existing regional security coordinators to establish more institutionalized cooperation of the transmission system operators (TSOs). The centres shall geographically cover the whole EU territory and especially perform their functions independently from individual national and TSOs interests. The purpose of the centres should be to complement the role of the national TSOs on issues of regional relevance (article 32).*
- *BusinessEurope supports the Commission proposal with the proposed scope of activities of the newly established centres. This would enable an adaptation to the needs of further integrated power system and smooth electricity flows across the borders, as well as have an impact on the costs for consumers. However, the proposed rules for the sizing of the reserve capacity and facilitation of procurement of balancing capacity should be allowed to be amended to better reflect local specificities (article 34).*
- *While more enhanced cooperation will emerge bottom-up and voluntarily, it is necessary to have, as proposed by the Commission, binding decisions for some types of actions. Safety of the system however needs to be the top priority at all times. For the sake of flexibility, it should be possible to extend the list of services provided by the RCC on the basis of a joint decision of the regulatory authorities of the region (article 38).*
- *Lastly, increased transparency is a precondition for more efficiency and better implementation. Amending the Commission proposal to have cooperative decisions on the basis of coordination within and between the centres, ensuring equitable treatment between members of the centres and facilitating consensus are a must (articles 35, 36). Also, deviations from the decisions must be fully justified without a delay (article 38) and well monitored by the centres (article 43).*



LEVEL-PLAYING FIELD AND DEMAND RESPONSE

➤ ***Removing distortions and exemptions to ensure level-playing field***

In particular, it is necessary that all energy sources, including renewables, stand on equal footing in the market. This can be enhanced by removing specific exemptions and by strengthening the balancing responsibility of all generation and demand sources. In this respect, the Article 4 of the electricity regulation envisaging general balancing responsibility for all market participants is a positive contribution. At the same time BusinessEurope warns against exempting of small-scale installations in the future, which may contradict the objective of establishing a level playing field.

- *In this sense, we support the Commission proposal to remove wholesale market price restrictions. Yet, some proposals may weaken this level-playing field. As an example, priority dispatch rules for some generation capacities should not undermine the objective of gradually removing all restrictions and discriminatory rules. Therefore, we support amendments no 490, 492, 524, 529, 530, 537, 538 (as well as other identical amendments).*

➤ ***Leveraging of demand response and promoting new entities***

BusinessEurope perceives the proposals to have more consumer engagement as well as fewer constraints for demand side response and the role of aggregators to go in the right direction. Furthermore, demand side resources should be granted access to all markets. In order to maintain a level-playing field, the same rules should apply to all market players including aggregators and energy communities.

With deep transformation of the energy sector and new, emerging business models, there is a vast array of entities operating in the market. The Commission rightly intends to facilitate the entry of new players to increase competition. In this sense, BusinessEurope supports the proposal to have all sources on an equal footing in the market, in particular:

- *In order to ensure level-playing field, more competition and new entrants, we support the original Commission proposal regulating new market entities in chapter II of the electricity market regulation, in particular specific provisions of the articles 3, 6, 7.*
- *With respect to article 11: The removal of priority dispatch for new installations is strengthening the market and is therefore welcomed. However, exemptions may contradict the envisaged level playing field – as it is the case with exemptions for balancing responsibilities – and should hence be carefully examined. Exemptions should only be limited to emerging and immature technologies, and not be based on the installed capacity.*



- *With respect to article 12: Rules on curtailment and redispatching of generation sources also raise concerns. While market-based curtailment and redispatching shall be used to the maximum extent, the proposed rules for non-market based system should be revised. Security of supply shall be the primary criterion when using non-market based measures. The so-called last-curtailment rule for renewable energy and high-efficient cogeneration should be used in exceptional circumstances only.*