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EWEA briefing paper on the European Commission communication: "Making the internal energy market work"

State of play in the IEM

In order to achieve an Internal Energy Market (IEM) in the EU three liberalisation packages have been adopted so far. The 3rd Liberalisation Package came into force in March 2011. Most notably, it changed the context of voluntary market integration and liberalisation efforts of the past by:

- requiring ownership unbundling of vertically-integrated utilities, and
- the provision of binding regulations (Framework Guidelines and Network Codes).

The newly created legal framework for cross-border transmission management and market integration should lead in 2014 to the achievement of the first step of the Internal Energy Market – the so called "target model".

In practice, some encouraging results have been achieved; in 2010 the market coupling of Germany, France, the Benelux countries and the Nordic market region took place on a day-ahead level. There is every indication that by 2014 the EU power markets will be integrated at the day-ahead time scale.

However, one can note only little progress when it comes to the uptake and integration of intraday and balancing markets. Furthermore, structural market distortions such as high levels of market concentration and regulated prices remain the rule rather than the exception in many Member States.

EWEA therefore welcomes the Commission communication which assesses the state of play of the process towards the completion of the internal energy market by 2014. In particular it encourages Member States to step up their implementation and liberalisation efforts by underlining benefits of the IEM for citizens and business, and identifies the need for further action in order to ensure that this objective is realised.

However, the Communication fails to address key deficits of the internal market, and the Communication sometimes lacks clarity in terms of the actions which still need to be taken in particular with regards to the integration of renewable electricity (RES).

On national level, various Member States, such as Italy, Spain or France have already established so-called **capacity markets or mechanisms**. Germany, Europe's largest power system, is now looking at a final decision in the coming weeks as to what form of capacity mechanism will be implemented. Clearly, these are inward-looking policies that threaten a truly integrated Internal Energy Market by distorting investment signals for transmission and power generation capacity rather than ultimately ensuring generation adequacy.

EWEA welcomes the Commission's cautious approach with regards to capacity mechanisms.

Shortcomings of the Communication:

Tackle structural market distortions rather than focussing on renewable support mechanisms. To this end the following most critical shortcomings must be addressed:

- Fossil fuel and nuclear subsidies;
- regulated prices;
- market concentration; and
- lack of market transparency and implementing properly the EU Liberalisation packages.

While the Communication mentions these deficits, it does not propose any actions to address them beyond pursuing the ongoing infringement procedures and insisting on national phase-out timetables for regulated prices. Relying solely on this and the ENTSO-E network codes will not be sufficient. Furthermore, the EC advocates action on renewable support mechanisms while nothing new is proposed on subsidies for nuclear and fossil fuel generation.

Support mechanisms and priority grid access for renewables should not be seen as positive discrimination for renewables, but as a compensation for the lack of a functioning internal energy market and internalisation of all external costs. Structural market distortions should therefore be addressed first. With increasing levels of renewable penetration, support mechanisms should be made more market-responsive and EWEA looks forward to working with the Commission on its guidance on support mechanisms.

Emphasise the importance of integrated intraday and balancing markets: Functioning intraday markets are crucial for the efficient integration of large amounts of wind energy and for cost-efficient system operation in general. Cross-border balancing markets should also be developed as this will provide for further system operation savings. While the Commission recognises this, there is little action proposed. This should be emphasised before considering further regulatory interventions, e.g. in form of capacity mechanisms.

The functioning and liquidity of wholesale markets and cross-border interconnectivity together with the forecast horizon influences to what extent wind farm operators can be at all in balance. The application of state-of-the-art forecast tools together with larger balancing areas is key. In regimes where balancing costs must be borne by the wind farm operator, regulators should ensure that these costs are transparent and represent only the real cost of balancing.

Establish grid support/ancillary services markets to create additional non-discriminatory revenue streams: in view of lower average and more variable spot market prices on energy-only markets due to increasing penetration levels of low marginal cost renewable energy, commercial provision of ancillary services as alternative market-based revenue streams for all generators should be considered. This would encourage investor interest in power generation and tackle any potential generation gap in the electricity sector in a market-based way, as opposed to a subsidy in the form of capacity payments.