

Clean Energy Package – What's in it for industry

Sofia – 30/1/2018

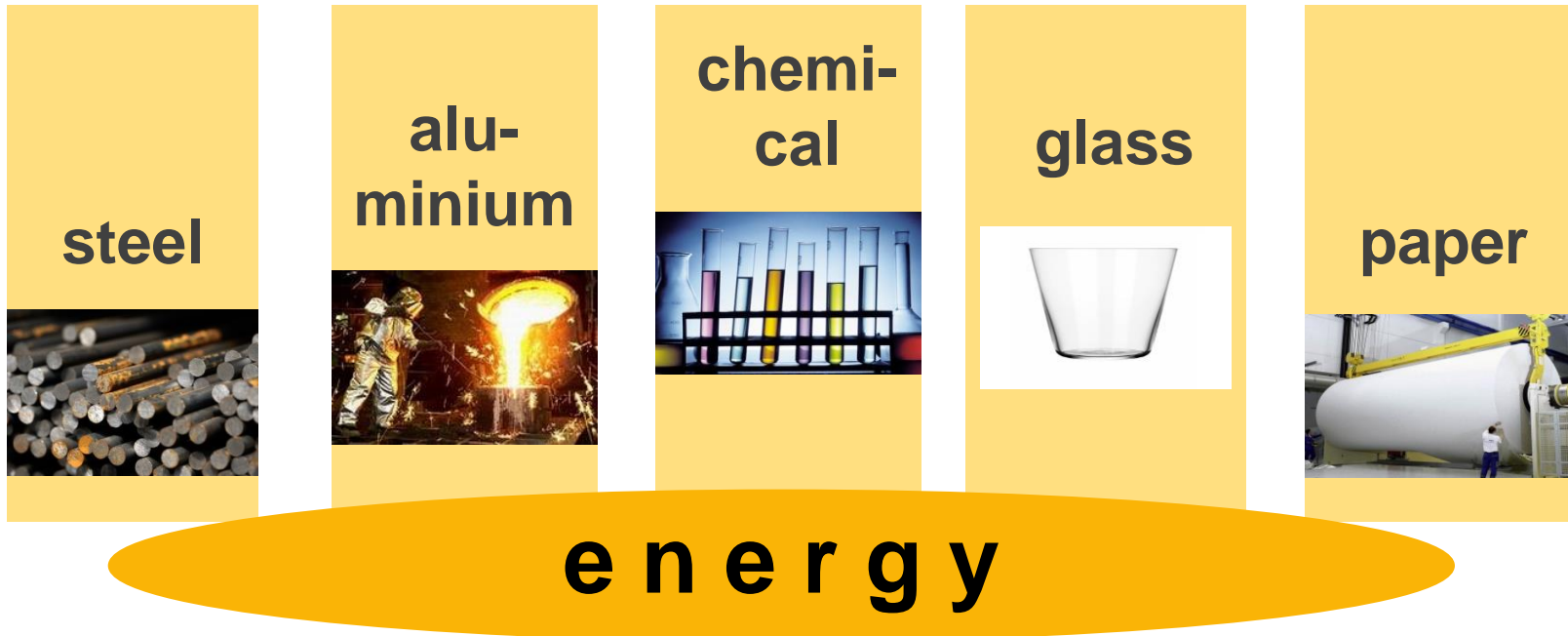
The International Federation of Industrial Energy Consumers

- represents interests of **industrial energy users** in Europe for which **energy** is a significant component of **production cost** and a key factor for **competitiveness**
- non-profit association
- established in 1989, over 28 years ago
- premises in Brussels
- represents **15 national European associations:**



IFIEC Europe's Membership

... represents a diverse set of industries including



... on a cross-sectoral level

Electricity Market Design

IFIEC welcomes the proposals of the Commission on Electricity market design

- Clear choice for the “Energy-only market”
- Mitigation of market distortions
- Framework for more demand response
- Better use of interconnector capacities for the market
- Integration of renewables in the market
- Capacity Mechanisms as a “last resort” solution only

Energy-only market

IFIEC strongly supports the concept of an Energy-only Market (EOM)

- Market distortions need to be eliminated (priority access, subsidies, price caps, ...)
- Avoid need for separate remuneration of generation capacity or flexibility

Market design is not a goal as such but a means for coming to a “balanced” electricity system (security of supply – climate & environment – competitive prices)

Mitigation of market distortions

Too many distortions prohibit the EOM from functioning correctly and from assuring Security of Supply, e.g.

- Subsidies
- Priority access – balancing responsibilities
- Permitting policy (generation + transmission/distribution)
- Inefficient cross-border capacity calculation and allocation
- Diverging national energy policies
- ...

All existing market distortions in the current energy-only market must be completely eliminated as quickly as possible (“there are no **necessary** market distortions”).

The phasing-out of these distortions needs to be done in a balanced way, in order to avoid that existing disadvantages for some market parties are consolidated and new ones are introduced.

A Framework for Demand Response

After 20+ years of market liberalisation, Demand Response finally receives a clear framework in European legislation. IFIEC welcomes this proposal and supports the Commissions' draft.

Demand Response can bring more flexibility to the electricity system at a lower cost than building additional generation capacity. It can therefore bring down system cost to the benefit of all consumers.

Demand Response can, however, not guarantee security of supply in cases of structural shortages.

IFIEC suggestion:

Art. 2. 11. 'dynamic electricity price contract' means an electricity supply contract between a supplier and a final customer that reflects the price at the spot market or at the day ahead market at intervals at least equal to the market settlement frequency **and allows the final customer to respond to price signals;**

Better use of interconnector capacities for the market

IFIEC supports the proposals of the Commission on the definition of bidding zones, capacity calculation and allocation

Configuration of bidding zones must be designed in such a way as to maximise economic efficiency and cross-border trading opportunities while maintaining security of supply.

Member states must eliminate structural congestions as soon as possible.

Changes in the configuration of bidding zones should take into account market players' reasonable transition costs.

Integration of renewables in the market

IFIEC supports the proposals of the Commission on the integration of renewables in the market.

IFIEC insists on

- **Full elimination of priority access to the grid for all technologies**
- **No technology-specific exceptions to balancing responsibilities**
- **Provisions in REDII interfering with the market functioning should be avoided by addressing the concerned topics in the legislation dedicated to New Market Design. Examples include :**
 - ITRE-amendments in REDII allowing for exemptions for small-scale installations (<500kW) to integrate (Art. 4, 2) undermine the condition to integrate electricity from renewable sources in the electricity market because this represents a large part of the decentralised production park.
 - Changes to improve market functioning in the NMD will be undermined by REDII provisions because no changes that effects renewables will be allowed (Art. 6): “...ensure that regulatory changes do not have a negative impact...” “Compensation for any regulatory or grid operation change impacting negatively the economics...”

Integration of renewables in the market

IFIEC supports the Commission objective of integrating renewables in the market.

IFIEC insists that integration support must be

- Time limited
- Cost-competitive (auctioned)
- Technology neutral
- Consistent between Member States
- Supporting only immature technologies

Electricity balancing

IFIEC insists that balancing mechanisms :

- are transparent and easily accessible for all market actors
- minimize system costs
- are as simple as possible.

Harmonization of balancing mechanisms needs to be supported to the extent that it leads to lower system costs.

- Rules for procurement of balancing capacity and cross-zonal trade of balancing services should be aligned with the corresponding provisions in the recently developed Electricity Balancing Guideline (EB GL).
- (New) regulatory regime must not result in increased procurement costs (causing higher network tariffs), and must not jeopardise demand-side participation in balancing markets.

Closed Distribution Systems

CDSs cannot be treated in the same way as DSOs

- Industrial sites often operate closed distribution systems (CDSs) supplying underlying industrial consumers on the same site. CDS's should be relieved from unnecessary burden as they are in the first place (and contrarily to DSOs), grid users / final customers, and have only as a secondary task the distribution of electricity on their grids.
- IFIEC recommends to make a clear distinction between the obligations for public DSOs (including public service obligations) and those for CDSs (supplier choice, grid stability and extension, metering data, market access, ...)
- CDSs must be allowed to own and operate storage facilities !

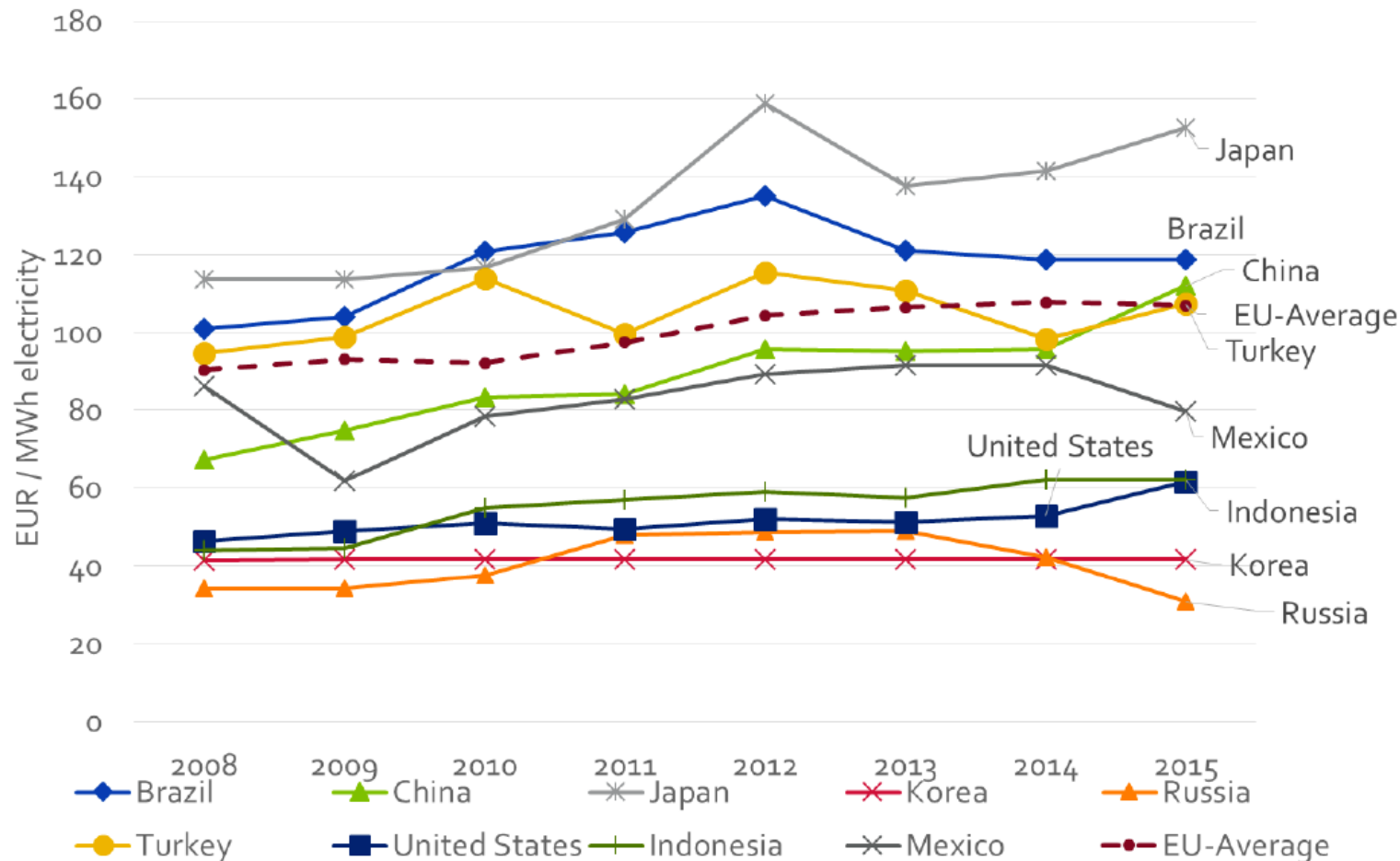
Capacity Mechanisms as a “last resort” solution only

IFIEC shares the Commission’s reluctance to introduce capacity mechanisms

- A well-functioning, non-distorted EOM should provide
 - a competitive price for consumers,
 - a fair remuneration for generators AND
 - investment signals for security of supply
- Overcapacities should not be subsidised; demand response can provide system flexibility at a much lower cost
- Capacity mechanisms must only be introduced as a last resort solution, and should be time-limited
- Capacity mechanisms are not compatible with the “Value of Lost Load” approach for price caps
- Capacity mechanisms must not increase regulatory costs for industries competing globally

Report - Energy prices and costs in Europe

Figure 8: Average industry electricity prices in the EU and major trading partners



Source: Brazilian Ministry of Mining and Energy, Chinese Price Monitoring Centre, NDRRC, Indonesian State Electricity Company, Russian Federal State Statistics Service; EIA data for Turkey, S Korea, Japan, USA and Mexico.

Conclusions

- The Winter Package should bring benefits for ALL electricity consumers
- Market design and other aspects of energy policy should converge to a balanced set of targets :
 - Competitive electricity costs
 - Security of supply
 - Environmental and climate goals
- Demand response can increase system flexibility at a lower system cost than additional generation capacity
- Decarbonization will require technological breakthroughs, let's concentrate on Research & Development and phase out subsidies...
- Policy costs (regulated items, networks, subsidies, taxes) for global competitive industries must be reduced, and predictability must be increased if future investments are to be in Europe.