

Public consultation on a new energy market design

Fields marked with * are mandatory.

Information about you

* Are you responding to this questionnaire on behalf of/as:

- Individual
- Organisation
- Company
- Public Authority
- Other

* Name of the company/organisation

IFIEC Europe

* Please describe briefly the activities of your company/organisation and the interests you represent

IFIEC (International Federation of Industrial Energy Consumers) Europe is an international non-profit association, established in 1989 to represent the interests of industrial energy users in Europe for whom energy is a significant component of production costs and a key for competitiveness in their activities in both Europe and throughout the world.

IFIEC Europe was founded on the belief that competitive energy supply, responsible use of energy and consumer choice and flexibility, are the necessary ground rules for competitive and sustainable industrial activity in Europe.

IFIEC Europe represents 16 national European federations that comprise - on a cross-sectoral level - those industrial sectors for which energy is a significant component of production costs. IFIEC's membership represents a diverse set of industries including: aluminium, automobile, brewing, cement, chemical, copper, fertilizer, food, glass, industrial gases, metals, paper, pharmaceutical, plastics and steel.

IFIEC Europe's mission is to anticipate and to respond to the evolving requirements of those sectors by proposing policies that allow realistically priced energy to be available. This will allow them to continue to improve energy efficiency and environmental performance whilst ensuring international competitiveness both in Europe and throughout the world.

Objectives

The objectives of IFIEC Europe are to:

- ensure an open, transparent and competitive market for electricity and natural gas, based on well balanced and secured supply;
- ensure choice and flexibility for industrial energy users to negotiate competitive conditions adapted to their differentiated consumer profiles in terms of supply load, continuity, flexibility, duration and price;
- ensure regulated third party access to electricity and natural gas infrastructures under non-discriminatory and transparent conditions;
- stimulate improved efficiency in the use of energy resources through cost-efficient opportunities and measures;
- contribute to the reduction of CO2 and other greenhouse gases within a framework that preserves industrial competitiveness.

Introduction

As the mission statement and objectives of IFIEC Europe show, we have been supportive of the European energy markets liberalization and integration process from the very beginning in the early '90s. IFIEC members strongly believe that open markets and fair competition will lead to competitive prices and improved security of supply for all consumers.

IFIEC Europe is in favor of a balanced climate and energy policy, based on the traditional 3 pillars (competitiveness, security of supply and environment/climate targets) but has seen a gradual move during the last decade to a vision where the introduction of more and more renewable energy sources becomes the sole target, while competitive prices and security of supply are seen more and more as "secondary targets". The consultation document at various levels clearly shows this break with the past: the word "competitive(ness)" appears twice in the document, "security" 19 times and "renewable(s)" 47 times...

IFIEC is therefore worried about the future of industry in Europe and very particularly about the attractiveness of Europe for future

investments in industrial activities: industrial activity, including the involved value added and jobs, has progressively decreased since the beginning of the economic crisis in 2008. Companies active in energy intensive industries in Europe are generally price takers in a mostly global market and cannot pass on additional costs to their customers. Restoring global energy cost competitiveness is a priority. Solutions exist but must address all energy cost components and require strong political support. Increasing the industry's share in GDP is and should remain one of the goals of the Commission, not only because of the immediate economic benefit (jobs, value added, trade surplus, innovation, ...) but also because solutions for societal challenges (climate change, food poverty, access to clean water, ...) will have to be developed by these same industries.

IFIEC Europe also clearly wants to point out that the European carbon Emissions Trading Scheme (ETS) cannot be used as a tool to promote a specific (electricity generation) technology, as the consultation document suggests. It has not been designed to do so, but to reduce emissions at the lowest possible cost. The carbon price required to make RES-E competitive (at least 100-200 €/ton of CO₂, compared to current levels of 8€/ton) is in any case far too high, and would make industrial activities virtually unviable within the EU.

* Which countries are you most active in?

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|---|--|
| <input checked="" type="checkbox"/> Austria | <input checked="" type="checkbox"/> Belgium |
| <input checked="" type="checkbox"/> Bulgaria | <input checked="" type="checkbox"/> Croatia |
| <input checked="" type="checkbox"/> Cyprus | <input checked="" type="checkbox"/> Czech Republic |
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| <input checked="" type="checkbox"/> Slovenia | <input checked="" type="checkbox"/> Spain |
| <input checked="" type="checkbox"/> Sweden | <input checked="" type="checkbox"/> United Kingdom |
| <input type="checkbox"/> Other | |

Are you registered with the EC transparency register?

- Yes
 No

My number is

1978775156-31

* Can we publish your answers on the Commission website?

- YES - under my name (I consent to all of my answers/personal data being published
- under my name and I declare that none of the information I have provided is subject to copyright restrictions).
- YES - anonymously (I consent to all of my answers/personal data being published
- anonymously and I declare that none of the information I have provided is subject to copyright restrictions).
- NO - please keep my answers confidential (my answers/personal data will not be published, but will be used internally within the Commission)

Short-term markets

* (1) Would prices which reflect actual scarcity (in terms of time and location) be an important ingredient to the future market design? Would this also include the need for prices to reflect scarcity of available transmission capacity?

Yes, in a well-functioning energy only market (EOM), scarcity will lead to market prices that provide investment signals to ensure system adequacy. Government intervention clearly impacts the market, which then fails to give a clear price signal to trigger investment in non-subsidized technology.

Yes, congestion (the consequence of scarcity of transmission capacity) between price zones will translate into diverging electricity commodity prices. Price divergence caused by lack of transmission capacity should be countered by investments in additional transmission capacity and more efficient use of the existing. Grid investments must be based on a socio economic cost benefit analysis, and financed on a cost-reflectiveness base (causer pays).

* (2) Which challenges and opportunities could arise from prices which reflect actual scarcity? How can the challenges be addressed? Could these prices make capacity mechanisms redundant?

The concept of a liberalized electricity market as such will lead to increased market price volatility, because the reserve capacity margin will be significantly lower than in a regulated system in order to lower the total cost of the electricity system. This will, in turn, make flexibility more interesting for the system. Flexibility can take the following forms:

- (more) flexible generation
- Demand Side Management in all market segments (residential, offices, services industries, distribution, industrial consumers, ...)
- Storage

In a competitive market, a permanent trade-off will take place between available flexibility and the need for investments in additional generation capacity. The latter will only take place if the price signal sufficiently strongly indicates the need for this capacity and until that, flexibility present in the system will bring generation and load in balance.

Only in case the market fails to lead to generation adequacy, capacity mechanisms can be envisaged as a last resort solution. For IFIEC Europe, first the root causes of the problem, i.e. the lack of investment signals in the prices due to the massive investments in subsidized intermittent generation capacity should be resolved, and all other government interventions on the market such as price caps must be resolved. Therefore, some other measures need to be taken first, such as:

- phase out existing subsidies for current technologies (which should rapidly become fit for the market) and, in general, support only R&D and small-scale demonstration projects
- fully integrate all generation plants of all technologies into the market
- removal of (1) government interference with market functioning; (2) conditions for sustained market abuse by dominant players
- promote voluntary demand response in all market segments
- improve the competitiveness of the European natural gas market by diversifying supply sources - e.g. by allowing exploration of shale gas where economically and environmentally justified - in a well functioning market
- increase transmission and interconnection capacity and optimize allocation and congestion mechanisms in a non-discriminatory, cost effective way
- stimulate research into economically viable storage.

Even then, if a CRM is introduced, it should comply with a number of strict requirements:

- it should aim at solving a specific, well-defined problem (e.g. generation adequacy issue: local peak demand, system imbalance because

of intermittency...)

- the need for its introduction has to be well documented (incl. cost impact assessment)
- it should be temporary (increasing interconnections will progressively reduce the size of the problem), cost efficient and have minimum impact on market functioning and integration
- the introduction of multiple CRMs in a single regional electricity market should be avoided
- it should be financed by those who created the problem which CRMs aim to solve: causer / payer principle
- It should be non-discriminatory; i.e. everyone should be able to participate, load, production, storage and participation should not be limited to national players.

Yet another challenge is a political one: for price signals to work as investment signals, they must be reliable. For a market player to invest in new generation (or load-shifting) capacity, he needs certainty that price peaks, necessary to refinance the investment, might not be offset by political intervention, e.g. by introducing price caps or floors. Therefore, a credible political commitment is needed not to interfere in price formation.

*** (3) Progress in aligning the fragmented balancing markets remains slow; should the EU try to accelerate the process, if need be through legal measures?**

Any well-functioning integrated energy market needs a well-functioning integrated balancing market. The EU should take all necessary measures in order to ensure balancing market integration as soon as possible. The ongoing Balancing Pilot Projects are promising steps to an integrated balancing market. However, compliance of these and any regional initiative with the overall European target model is paramount. Otherwise, a fragmented market is likely to remain.

* (4) What can be done to provide for the smooth implementation of the agreed EU-wide intraday platform?

The Cross-Border Intraday Market Project seems well underway, and should lead to a final solution for all involved price zones by mid-2017. For IFIEC Europe, it is important that all involved parties, especially Power Exchanges and TSOs, continue to fully and actively support the timely implementation of this project in a transparent way. Furthermore, IFIEC Europe hopes all non-involved European countries join the project as soon as possible.

Local Implementation Projects (LIPs) should be implemented in full compliance with the target model to foster initial operational experience with intraday market coupling.

Long-term markets to enable investment

- * (5) Are long-term contracts between generators and consumers required to provide investment certainty for new generation capacity? What barriers, if any, prevent such long-term hedging products from emerging? Is there any role for the public sector in enabling markets for long term contracts?

Long-term contracts are an instrument to manage risks. This can be done between producers and consumers but also between financial players, aggregators and suppliers. Market players have to manage their risks and therefore a competitive, undisturbed, and liquid market is a prerequisite. The public sector should limit itself to setting the requirements for creating a well-functioning market.

Voluntary long-term contracts are one of the appropriate tools to give incentives to investors, both in electricity generation (where they can benefit from a stable and predictable income) and in industrial activities (where investors can benefit from visibility on the pricing process for a certain period in time). Competition rules should therefore allow interested market participants to manage risk through this type of contracts without the intention to foreclose the market. Wherever specific barriers exist that hinder the conclusion of these contracts, they should be removed.

Furthermore, liquid financial forward markets will improve confidence among market participants, and support long-term contract negotiations. Optimal use of the transmission network is vital. As IFIEC underlined before, TSO's should not be forced to sell long-term transmission rights. In any case, industry consumers must not bear the risk of TSO's potential loss from selling FTR's

- * (6) To what extent do you think that the divergence of taxes and charges[1] levied on electricity in different Member States creates distortions in terms of directing investments efficiently or hamper the free flow of energy?

[1] These may be part of general taxation (VAT, excise duties) or specific levies to support targeted energy and/or climate policies.

IE believes that taxes and levies disturb the internal market. National taxes and levies are government interventions and influence investments directly. Moreover, as the European Commission confirmed itself at several occasions, taxes and levies weigh heavily on European Industry global competitiveness and on the level playing field inside the EU. IFIEC therefore strongly defends the idea to phase out all specific taxes and levies on energy / electricity consumption that finance objectives of public interest. IFIEC also would like to underline the distorting nature of government intervention into price formation by taxes such as CO2-floor prices.

Renewable generation

- * (7) What needs to be done to allow investment in renewables to be increasingly driven by market signals?

The only way to achieve this is to make renewable energy sources competitive with other, traditional energy sources, taking into account the total cost of the electricity system. This needs a quick phase out of all subsidies for technologies already in the market. To reach the renewable goals substantial efforts in Research & innovation are needed rather than huge budgets on the back of the electricity consumer in view of prematurely scaling up these technologies.

Moreover, and since intermittent renewable electricity is becoming an important part of the electricity supply in most MS, it is important that renewable electricity be integrated into the electricity market,

i.e. that RES-E operators act like any other power producer as a market participant and respond to market signals and do not lead to market distortion due to priority access, needing extensive balancing and backup of the system.

In any case, IFIEC would like to underline that RES subsidies in no way can prevent market signals to work properly.

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- * (8) Which obstacles, if any, would you see to fully integrating renewable energy generators into the market, including into the balancing and intraday markets, as well as regarding dispatch based on the merit order?

Intermittent renewable energy sources do not deliver the products needed by consumers. Integration of these technologies requires complementary services (to be included in the total cost of these technologies) to transform this type of generation into marketable products. Again, in a well-functioning competitive market, suppliers and/or BRPs will only take these technologies in their resources portfolio if they are competitive to other energy sources.

As concrete obstacles, IFIEC Europe would like to mention:

- Priority grid access
- The lack of balancing responsibility
- Prices that are not driven by market signals

- * (9) Should there be a more coordinated approach across Member States for renewables support schemes? What are the main barriers to regional support schemes and how could these barriers be removed (e.g. through legislation)?

The target should be to phase out subsidies as quickly as possible. IE favors all cost-efficient solutions to bring the total cost of the electricity system down. It is not by creating different layers of support (for renewables, for capacity, in future (maybe) for storage) or by harmonizing support schemes that competitiveness will be restored. EU should make a clear choice either for the market with a marginal price system but without subsidies, or for a “steered” system but without marginal pricing. In the absence of such a clear choice, consumers will keep on paying taxes and surcharges, subsidies and additional grid costs on top of a commodity price, driven by a marginal price, which in turn will be boosted by ETS. This combination cannot provide for competitive electricity prices for industry.

Demand response

- * (10) Where do you see the main obstacles that should be tackled to kick-start demand-response (e.g. insufficient flexible prices, (regulatory) barriers for aggregators / customers, lack of access to smart home technologies, no obligation to offer the possibility for end customers to participate in the balancing market through a demand response scheme, etc.)?

IFIEC, together with European sector organizations, worked out a number of recommendations for stimulating the development of voluntary demand response:

- Give visibility: there is a need for a stable regulatory framework guaranteeing a fair remuneration for DSR
- Give priority to cost efficient solutions
- The first objective of industry is to produce:
 - o DSR cannot solve structural capacity shortages and can only be introduced on a voluntary basis
 - o The potential for DSR can be increased but this requires investments
- Remove the main obstacles:
 - o commercial/legal constraints: It is not always clear who is the owner of load flexibility (transfer of energy)
 - o System constraints : minimum size (MW) and duration of products are sometimes incompatible with industrial constraints
 - o Grid codes and tariffs need to be adjusted
 - o all load flexibility must be able to find its way to the market or to TSO products
 - o Improve transparency : give end consumers access to essential information (usually designed for generators, not for load)

For IFIEC Europe, any market design which forces the consumer to adapt his offtake to the availability of (intermittent) energy sources is unacceptable. Pushing increasing capacity of intermittent renewable energy sources into the electricity system by means of subsidies, will lead to increasing needs for system flexibility. This will not only lead to increasing volatility of the electricity price, but also to a progressively accelerating total cost of the electricity system. Ultimately, this will cause a shift from investments in the power industry to investments in other segments of the economy in order to increase system flexibility, up to a point where the required higher investment cost for the industrial consumer (more flexible production units and even additional production units only to be operated in periods of low prices) will no longer be compensated by the benefit of producing industrial goods in periods with a low electricity price. This will lead to an unbearable total cost of the electricity system for the industrial consumers and thus to delocalization of industrial activities outside Europe.

- * (11) While electricity markets are coupled within the EU and linked to its neighbours, system operation is still carried out by national Transmission System Operators (TSOs). Regional Security Coordination Initiatives ("RSCIs") such as CORESO or TSC have a purely advisory role today. Should the RSCIs be gradually strengthened also including decision making responsibilities when necessary? Is the current national responsibility for system security an obstacle to cross-border cooperation? Would a regional responsibility for system security be better suited to the realities of the integrated market?

IE supports all initiatives promoting cooperation between TSOs on the basis of common rules.

Adapting the regulatory framework

- * (12) Fragmented national regulatory oversight seems to be inefficient for harmonised parts of the electricity system (e.g. market coupling). Would you see benefits in strengthening ACER's role?

IE supports all initiatives promoting cooperation between NRAs with an increasing role for ACER as mediator, especially on cross-border issues, under the condition of full legal protection of grid users.

- * (13) Would you see benefits in strengthening the role of the ENTSOs? How could this best be achieved? What regulatory oversight is needed?

ENTSO-E has a crucial role to play to harmonize grid operations across Europe. The consumers must be consulted and involved in the various stakeholder groups.

- * (14) How should governance rules for distribution system operators and access to metering data be adapted (data handling and ensuring data privacy etc.) in light of market and technological developments? Are additional provisions on management of and access by the relevant parties (end-customers, distribution system operators, transmission system operators, suppliers, third party service providers and regulators) to the metering data required?

For these issues, IFIEC Europe would like to refer to its response to the recent CEER Public Consultation on the Future Role of the DSO : (partly quoted here).

(...)

Specific attention has to be paid to industrial distribution grids, which are closed distribution systems in many cases. Individual consumption profiles may directly or indirectly enabling competitors to retrace production profiles. Therefore, such information should be handled with great care. In general, confidential business intelligence must be respected.

Access of suppliers or balancing responsible parties (such as shippers) to the grid connection capacity of final consumers would be beneficial in order to enable insights into the degree of capacity utilisation. Among the three models for data management, IFIEC preferred DSOs not to be a market facilitator. Involvement of a third party would support neutrality and a level playing field.

(...)

TSO-DSO coordination as well as a potentially extended role of DSOs with respect to congestion management, forecasting, balancing, etc. would certainly require a separate regulatory framework. This framework should consider that transforming the distribution systems' role will take a learning curve for DSOs and that some smaller DSOs might be overstrained by this. Therefore, IFIEC suggests consideration of a de-minimis-rule in this respect. Extended roles for DSO should be in the interest of consumers and only be implemented when it is economically efficient. Furthermore, different supply functions should be considered. Due to application of cogeneration in industrial electricity distribution systems, electricity generation and according flexibility is strongly connected to the heat demand of the respective site served by the grid. Consequently, approaches for activating flexibilities are different dependent on the supply function of the grid.

While TSO-DSO-coordination in the field of grid development is principally desirable, again the supply function has to be taken into account. Industrial grids require e.g. different levels of redundancy (electricity and gas), short-circuit withstand, electric strength (electricity), etc. compared to public grids. Therefore, grid development follows different priorities connected to the respective supply function. This should be considered in case of establishing an according regulatory framework.

- * (15) Shall there be a European approach to distribution tariffs? If yes, what aspects should be covered; for example framework, tariff components (fixed, capacity vs. energy, timely or locational differentiation) and treatment of own generation?

IFIEC in principle supports initiatives aiming at harmonizing tariff methodology and structure, both for transmission and distribution tariffs.

IFIEC asks specific attention for the following aspects:

- Increasing grid costs are essentially due to evolutions on generation rather than on load side (connection of RES-E capacities, sometimes far away from existing grids and/or load sides, increasing balancing and back-up needs for intermittent capacity, increasing cross-border capacity for coping with higher concentration of RES-E production, ...). IFIEC therefore insists on the increasing need for a fair distribution of grid costs between grid users. This would a.o. require a clear interpretation of the notion of cost-reflectiveness (grid costs to be borne by the causer) and a review of Regulation 838/2010.
- In some countries, incentives are (being) introduced for grid operators to reward specific performances. In this respect:
 - o IFIEC in principle cannot accept the introduction of incentives for TSOs/DSOs for performances linked to their “normal” (and already correctly rewarded) activities.
 - o Only extraordinary performances clearly bringing down the total cost of the electricity system for grid users compared to normal TSO/DSO operations can be rewarded through extra incentives. The incentives should be proportional to the extra-benefits the performance implies for grid users.
 - o The introduction of incentives cannot lead to cost inefficiencies nor to signals for TSO/DSO to postpone projects until an incentive is introduced.
 - o It should be made transparent how the TSO/DSO use the received incentives.
 - o Grid users must be consulted on the choice of TSO/DSO performances and the size of the incentives.
- Public service obligations (PSO) imposed on TSOs/DSOs should be financed out of general public resources.
- Tariffs should not be used for financing general policy objectives. They should reflect the real cost of efficient grid operation and be allocated on a causer pays/gets paid basis.

- * (16) As power exchanges are an integral part of market coupling – should governance rules for power exchanges be considered?

Power exchanges play a crucial role for market functioning: some regulatory oversight is needed and transparency on mechanisms and market results is a must.

European dimension to security of supply

*****(17) Is there a need for a harmonised methodology to assess power system adequacy?

The methodology to assess power system adequacy must be harmonised and made public.

*****(18) What would be the appropriate geographic scope of a harmonised adequacy methodology and assessment (e.g. EU-wide, regional or national as well as neighbouring countries)?

The methodology should be harmonised EU-wide but the assessment is essentially needed at relevant regional level.

* (19) Would an alignment of the currently different system adequacy standards across the EU be useful to build an efficient single market?

This would definitively be useful.

Furthermore, both interconnectors and generation should be taken into account in the adequacy assessment. It should be guaranteed that investments in transport or generation facilities are treated on equal footing in terms of adequacy.

- * (20) Would there be a benefit in a common European framework for cross-border participation in capacity mechanisms? If yes, what should be the elements of such a framework? Would there be benefit in providing reference models for capacity mechanisms? If so, what should they look like?

For IFIEC Europe, CRMs can only be introduced as a last resort solution; in that case, they should always be temporary and address specific issues. If, however, CRMs were introduced, IFIEC Europe supports cross-border participation if it leads to more cost-efficient and effective solutions.

- * (21) Should the decision to introduce capacity mechanisms be based on a harmonised methodology to assess power system adequacy?

For IFIEC Europe, CRMs can only be introduced as a last resort solution; in that case, they should always be temporary and address specific issues. If, however, CRMs were introduced, a harmonised methodology to assess power system adequacy would be preferable.

Submission of additional information

If you want to submit further documents, please send these only to ENER-MARKET-DESIGN@ec.europa.eu. Further documents can only be a complement to answering the above questions. Please also mention your name or that of your organisation in the subject line of your mail and reply to the following question

- * Did you send additionnal submissions to ENER-MARKET-DESIGN@ec.europa.eu

- yes
 no

THANK YOU FOR YOUR COLLABORATION!

Contact

✉ ENER-MARKET-DESIGN@ec.europa.eu
