Clean Energy for all Europeans – What about industrial consumers ?

IFIEC Europe Energy Forum 2017

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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**

Mitigation of market distortions

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

- **Priority access**
- **Subsidies**
- **Permitting policy**
- **Inefficient cross-border capacity calculation and allocation**
- **Diverging national energy policies**
- **…**

Existing market distortions in the current energy-only market must be completely eliminated as quickly as possible 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 support 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

Member states must eliminate structural congestions as soon as possible. Splitting up price zones in separate bidding zones is not in line with further market integration.

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**
- **INTEGRATION OF RENEWABLE ENERGY SOURCES IN A COST-EFFICIENT MANNER: as long as it is in place, support to renewable energies must become cost-efficient and must focus on technology-neutral innovation. Support schemes should be market-based and market responsive. They should only benefit technologies that are not yet mature, on a temporary basis.**

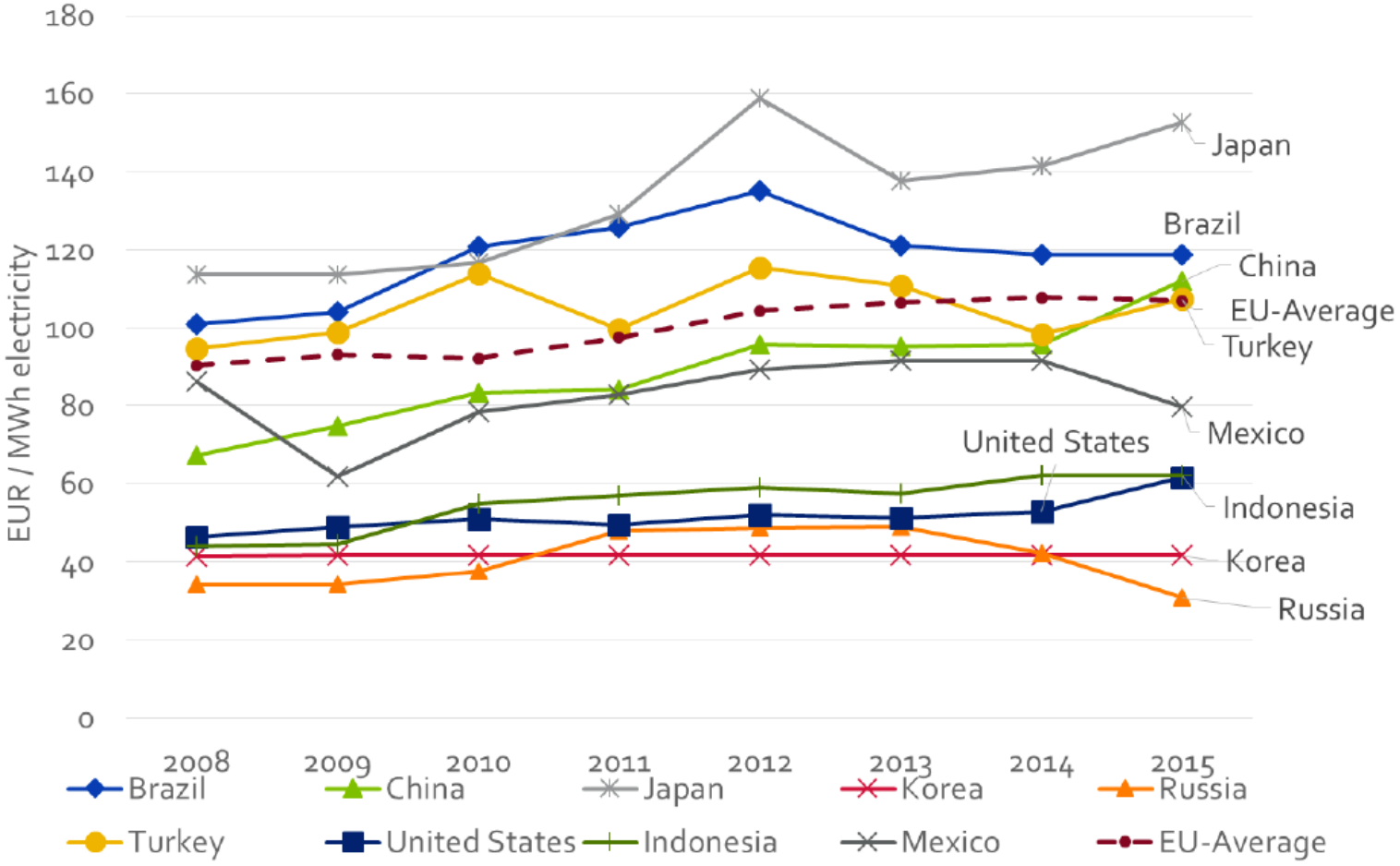
Capacity Mechanisms as a “last resort” solution only

IFIEC supports the proposals of the Commission on the introduction of 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 need to be taken out of the market; demand response can provide system flexibility at a much lower cost**
- **Capacity mechanisms are to be introduced only as a last resort solution**

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, NDRC, Indonesian State Electricity Company, Russian Federal State Statistics Service; EIA data for Turkey, S Korea, Japan, USA and Mexico.

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Report - Energy prices and costs in Europe

Quote 1:
While most business activity incorporates energy costs as a small share of total production costs, Europe's energy-intensive industries continue to be sensitive to price rises.

Quote *2:*
As measured through energy intensity, available evidence suggests that the USA's energy-intensive industry could be catching up in energy efficiency terms with the EU in some sectors. More investment in energy efficiency may help to redress this, together with a shift to innovative, higher added value products.

Quote 3:
(…) Member States should take advantage of the current lower energy prices to remove inappropriate subsidies and tax exemptions which distort price signals and delay the transition to a low-carbon economy.

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 potentially 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…