Energy Union & Market design: Who needs CRMs when we have DSR?

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It clarifies EU’s strategy to build a truly integrated energy market, ensuring network stability and preventing energy supply disruption. But it may also lead to a much more expensive power system:

- Global competitiveness remains a critical issue
- Solutions must address all cost components

We understand the long term goal of the Energy Union but EII face international competition on global markets every day:

- The challenge is to manage this costly long term transition while ensuring a continuous access to globally competitive energy costs for industry.
- It is a necessary condition for growth and jobs

... But competitiveness of EII remains to be tackled
a fast implementation of the 3rd energy package

the full finalization of the electricity target model
  o CRMs can only be a last resort solution
  o Voluntary DR should be stimulated: why not a network code?

increasing interconnectors capacity (when economically justified or critical to SoS) to stimulate cross-border trade

making transparency regulations operational asap

framing further introduction of RES in a comprehensive energy policy, including impact on competitiveness & SoS:
  o subsidies to be phased out fast
  o Long term visibility on hardship regimes for EII
  o RES generation to be fully integrated (balancing, back-up…)

IFIEC insists on measures improving cost efficiency
It is not clear whether the combination of current market design and energy policies will lead to the desired results (competitive electricity prices and security of supply).

**Complexity is indeed increasing:**
- Interferences between climate & energy policies
- A growing RES sector benefitting from specific rules
- Missing physical interconnections for a truly integrated market
- Diverging national policies

It is therefore premature to state that the current market design is ineffective.

It is not clear whether the creation of a single European electricity market (or even several regional markets) remains possible with such policy divergence.

- The Energy Union is at cross roads
- The CRMs question is crucial
First:

- rapidly **phase out subsidies for mature technologies** and, in general, limit support to R&D and demonstration projects
- fully **integrate** all generation plants of all technologies into the market
- 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
- stimulate research into economically viable methods of **electricity storage**
- ...

**Capacity remuneration mechanisms are a last resort solution if everything else fails**
Wherever CRMs are introduced, key principles should apply

- They 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 their introduction has to be well documented (incl. **cost impact assessment**)

- They 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

- They should be financed by those who created the problem which CRMs aim to solve: **causer / payer principle**

- **Load flexibility** should be rewarded on an equal basis compared to (additional) generation capacity
How to make DSR happen?

- **Give visibility**: Need for a stable framework with fair remuneration

- The first objective of industry is to produce
  - DSR **not for structural capacity shortages** and only **on a voluntary basis**
  - Potential can be increased via process adjustments

- **Remove barriers: give priority to cost efficient solutions**
  - Commercial constraints: **Who is the owner of load flexibility?**
  - System constraints: Minimum size (MW) and duration of products are sometimes incompatible with industrial constraints
  - Grid codes and tariffs need to be adjusted as well
    - All flexibility must be able to find its way to the market or to TSO products

- **Improve transparency**: give access to essential information (usually designed for generators, not for load)
Who needs CRMs when we have DSR?

- The EU already spent several hundreds of billion Euros in **important additional capacities over the past 5 years and will continue to invest in RES capacities** (27% target by 2030)

- **Energy efficiency** efforts should reduce our energy consumption by 27% by 2030

- We are going to spend several hundreds of billion Euros in **grid connections** in the 10 years to come

- **Competitiveness** of the European energy market is already significantly worse than most competing regions of the world

- Should we really add a **new layer of costs**??????

- Or should we promote **solutions which reduce the consumer bill**?
Become the global leader of RES technologies should really mean:
- **Globally competitive** with other technologies
- Invested in a cost-effective, time-optimized and **market integrated** way

Initiatives which deteriorate market competitiveness must be avoided

- It is faster, greener and more cost efficient to develop DSR than subsidise baseload generation with CRMs