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

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IFIEC Europe welcomes the Energy Union Package...

- 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

IFIEC insists on measures improving cost efficiency

- a fast implementation of the **3rd energy package**
- the full finalization of the **electricity target model**
  - CRMs can only be a last resort solution
  - 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:
  - **subsidies to be phased out fast**
  - **Long term visibility on hardship regimes for EII**
  - **RES generation to be fully integrated** (balancing, back-up…)

Can energy only markets function?

- 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**

Capacity remuneration mechanisms are a last resort solution if everything else fails

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**
- …

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**?

The Energy Union package should reinforce long term competitiveness

- 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**