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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

Ibec

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

Ibec is the largest business representative organisation in Ireland: we speak for over 7000 member companies across a range of industrial, commercial and non-profit sectors. Ibec represents Irish business; home grown, multinational, big and small, spanning every sector of the economy. Our Energy Policy Committee includes all major stakeholders in the Irish energy sector including generators, suppliers, network operators and consumers. Through our Energy Policy Committee (and its working groups) we assess legislative/regulatory proposals (national, all-island and EU) that will affect the environment our members operate in, and strive for consensus positions that reflect secure, sustainable and competitive supply of energy, including electricity.

Ibec is a member of BUSINESSEUROPE and is supportive of the majority of positions developed and included in their response.

Therefore the purpose of our submission is to illustrate the potential impact of certain objectives on the electricity market. Although geographical

ly peripheral, Ireland is a central reflector of the significant practical challenges surrounding the implementation of EU climate and energy policy and can offer important lessons that should be heeded in a power market design to underpin Energy Union. Certain characteristics of the wholesale electricity market on the island of Ireland are almost unique within the EU. It is a small, relatively isolated system that is non-synchronously connected to another island system (GB) which itself has limited interconnection to the continent. Our natural resources and policy choices means that Ireland is at the forefront of renewable electricity development, demonstrated by our ambitious target of 40% RES-E by 2020.

The large scale deployment of variable renewables has some important consequences for conventional thermal generation in the market. Some thermal plants are not making as much revenue as originally expected from electricity generation; increased levels of variable generation on the system has had the effect of pushing formerly baseload plants well down the merit order.

* Which countries are you most active in?

- ☐ Austria ☐ Belgium
- ☐ Bulgaria ☐ Croatia
- ☐ Cyprus ☐ Czech Republic
- ☐ Denmark ☐ Estonia
- ☐ Finland ☐ France
- ☐ Germany ☐ Greece
- ☐ Hungary ☒ Ireland
- ☐ Italy ☐ Latvia
- ☐ Lithuania ☐ Luxembourg
- ☐ Malta ☐ Netherlands
- ☐ Poland ☐ Portugal
- ☐ Romania ☐ Slovakia
- ☐ Slovenia ☐ Spain
- ☐ Sweden ☐ United Kingdom
- ☐ Other

Are you registered with the EC transparency register?

- ☒ Yes
- ☐ No

My number is

479468313744-50

* 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, however it is worth noting that in a small, isolated system with limited interconnection to other Member States and high levels of non-dispatchable generation, some plants may be constrained on in particular locations for the purposes of ensuring system security. In the case of Ireland, such plants are remunerated at their marginal cost.

A move to an energy-only market and hence a less transparent bidding regime could result in extremely high compensation levels to induce these balancing plants to operate for short periods; the price in these periods could conceivably be VOLL for all generators in the market. The isolated, peripheral nature of the island of Ireland in particular has mandated a requirement for a market design that includes energy, capacity availability and a range of other ancillary services.

Peripheral, isolated systems with very high levels of non-dispatchable resources will experience periods of scarcity when market participants are primarily dispatchable. It will have an important bearing for the market participant (and ultimately the consumer) whether the market is a pool or a bi-lateral market. In a pool, every market participant called upon to run is remunerated at the same level. In a bi-lateral market, each participant could experience a very different outcome.

Therefore it is important to consider that in peripheral, non-synchronous markets with high-levels of non-dispatchable plant, balancing plants are required to provide inertia and other ancillary services. In an energy-only market, it could result in a very high price signal to constrain plants on. While the outcome could be different for well interconnected Member States, it could be penal for peripheral Member States with non-synchronous interconnection.

*** (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 challenges could vary depending on generation profiles and fuel mixes. For example, a wholesale electricity market with up to 70% non-dispatchable generation at certain periods could face systemic challenges in providing certainty to renewable and fossil generators looking for a return over a 10-20 year period, especially since unpredictable factors such as weather could have a significant impact on balance of supply and demand.

In Ireland, fossil plants could find themselves in a position whereby they are unable to recover their costs. Ireland's Transmission System Operator (TSO) EirGrid recently published a study in which generation adequacy on the island was assessed on a hypothetical energy-only electricity market design. It is important to point out that as TSO it has no vested commercial interest in power generation. The 'Assessment of Generation Adequacy in an Energy-only Market' estimated generation capacity adequacy on an all-island basis if generators were to rely solely on energy revenues to recover their annualized fixed costs. It modelled outcomes for 2017, 2020 and 2023. These showed that without the presence of non-energy revenue streams, and allowing bids up to €3,000 per MWh, capacity shortages would occur in the majority of the modelled scenarios.

<http://www.allislandproject.org/GetAttachment.aspx?id=cclca497-4737-4a84-ab0a-a54242e32f7a>

This provides an important basis for the I-SEM design with capacity and ancillary services to complement the energy market. It is worth pointing out that a higher level of capacity reserve is required in an isolated market such as the island of Ireland; we are concerned that a move to "one size fits all" would not be helpful to ensure its cost-effective delivery. We certainly do not want to impede progress on the Internal Energy Market but we do need local flexibility to take account of circumstances and to prevent perverse outcomes for providers and electricity-intensive industries.

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

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

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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?

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- * (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.

There are a broad range of taxes and levies applied across the energy sector, with varying effects on the flow of energy within the Single Market. For example, the imposition of a unilateral national carbon tax that directly impacts the wholesale market price could be considered to distort trade and potentially investment.

There are numerous examples of Member States foisting the costs of meeting certain policy objectives (whether they be industrial or social) upon the electricity consumer; the cost of meeting industrial or social policy goals should be funded by the Exchequer rather than electricity consumers.

Renewable generation

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

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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?

One of the obstacles in the Irish market, for example, would involve reconciling the priority dispatch of a renewable energy generator (and thus being a price taker) with the need to meet EU mandated national targets (and the associated penalties with failure to meet these targets). We therefore need to consider market structures in which priority dispatch may not be necessary to achieve legally binding RES targets. Again a "one size fits all" approach may not work for all Member States.

- * (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 Energy and Environment Aid Guidelines demonstrate an important basis for underpinning a common set of principles to inform a coordinated approach in devising renewable support schemes. Our members recognise that a reformed EU ETS is the key instrument for decarbonising the electricity and large industry sectors. However, while variations remain in the market designs and fuel mixes of Member States, and until such a time as a single market price can efficiently incentivise all types of plant/generation, Member States will require certain levels of flexibility in the design of renewable support schemes.

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.)?

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Cooperation between System Operators

- * (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?

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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?

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

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- * (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?

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- * (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?

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

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European dimension to security of supply

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

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- * (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)?

At this stage, a harmonised methodology for determining adequacy may be premature. It is necessary to consider the physical differences and characteristics of each electricity power system in the EU, particularly in the context of varied levels of interconnection and the fundamental differences between the separate synchronous systems. Our members would welcome further information on the type of methodology for assessing adequacy.

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

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- * (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?

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

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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
