Global Energy Tendencies in the electricity sector

Hans ten Berge
Secretary General of EURELECTRIC
5 May 2015
Brussels

EURELECTRIC represents the EU electricity industry – all across the electricity value chain
What our industry stands for
– our 5 guiding principles

We believe in:

1) A European, integrated approach to the entire power system
2) An affordable energy transition thanks to competitiveness and cost-efficiency oriented policies
3) Electricity as a major contribution to the decarbonisation of Europe’s economy
4) Active and empowered customers as the core of our business and the centre of our innovation policies
5) A market design and regulatory conditions that ensure sufficient generation and infrastructure investments

New global societal changes are impacting the energy transition & the related decarbonisation
When we look at today’s reality, we see several areas where progress can still be made.

A. European electricity market integration is still in the making: example capacity markets...

- GB: Centralised capacity auction (1st auction late 2014)
- IE&NI: Capacity payments since 2007
- ES: Capacity payments for new and existing units (level of support reduced in 2013)
- PT: Capacity payments for new units (reduced in 2010)
- FR: Capacity obligations (start of the market expected late 2014)
- SE&FI: Strategic reserves; to be gradually phased out by 2020
- GB: Centralised capacity auction (1st auction late 2014)
- BE: Tenders for new CCGT plants → strategic reserves
- LV&LT: Capacity payments since 2011
- RU: capacity market with price restrictions. Long-term capacity supply agreements for obligatory investments
- PL: operational and strategic reserves
- GR: capacity payments
- ES: Capacity payments for new and existing units (level of support reduced in 2012)
- PT: Capacity payments for new units (reduced in 2013)
- FR: capacity obligations (start of the market expected late 2014)
...while wholesale market integration needs a serious boost

![Price convergence in Europe by region (ranked) – 2006-2013 (% of hours)](image)

Source: ACER Market Monitoring Report 2013

B. The low-carbon transition is more costly than need be

![Diversity of RES-E support schemes in the EU-28](image)

- Europe-wide ETS, but 28 national support schemes
- Average RES unit support at 69.7 EUR / MWh
- Support totalling 26.3bn EUR in 2011

Note: This map does not include secondary support instruments like incentives, investment grants, etc.
C. EU legislation is not incentivising the shift to low-carbon electricity in sectors such as transport or heating/cooling

D. Increasing taxes & levies mean that retail prices are on the rise
So far, customers have no visibility on this in their bill

E. Political and regulatory environment is hampering investments and innovation across the value chain
As a result, the value of power companies is deteriorating.

Our 5 guiding principles translate into clear policy requirements for the power system of tomorrow.
TO ACHIEVE:

1. A European, integrated approach to the entire power system

WE ASK FOR:

- The completion of the Internal Energy Market
- A more coherent, European approach to energy policymaking thanks to a strong Energy Union

OUR RECOMMENDATIONS TO POLICYMAKERS?

- Ensure the full and rapid implementation of the Third Energy Package
- Develop, in full consultation with stakeholders, network codes in line with the target models for the integration of day ahead, intraday and balancing markets
- Ensure that the network codes open the door to cross-border participation in capacity markets
- Strengthen ACER’s role as a true European regulator
- Coordinate CRMs at EU level to make sure that they are market-based, technology neutral and non-discriminatory

TO ACHIEVE:

2. An affordable energy transition thanks to competitiveness and cost efficiency oriented policies

WE ASK FOR:

- The market-based ETS to be the key driver of decarbonisation
- A level playing field providing competition among all technologies

OUR RECOMMENDATIONS TO POLICYMAKERS?

- Strengthen the ETS by swiftly adopting the Market Stability Reserve proposal & approving the linear factor at 2.2%
- Make RES fit for the market: achieve operational integration of RES in the market; design more cost-efficient and less market distorting RES support schemes
- Support immature technologies primarily through support for research, development and demonstration
- Allow demand response actors to participate in all markets on a level playing field
- Ensure that national distribution network regulation facilitates EU policy objectives
3. Electricity as a major contribution to the decarbonisation of Europe’s economy

WE ASK FOR:

- Policies to ensure Europe achieves its 2050 decarbonisation objective
- Dedicated policies to promote electricity transport and heating/cooling

OUR RECOMMENDATIONS TO POLICYMAKERS?

- Implement the EU’s 2030 climate and energy package
- A strong ETS to decarbonise the ETS sectors; a mix of bottom-up/top-down instruments to decarbonise the non-ETS sectors (eco-design, energy labelling, etc.)
- Review the energy conversion factor used in the Energy Efficiency Directive
- Member states should step up plans for developing public charging electric vehicle infrastructure
- More research funding opportunities dedicated to clean electric transport
- Expand the DSO toolbox in order to integrate more RES into distribution networks

4. Active and empowered customers as the core of our business and the centre of our innovation policies

WE ASK FOR:

- More transparency on the breakdown of bill cost-components
- Enabling demand side participation for household customers
- Network regulation promoting smart investments to keep long-term costs in check

OUR RECOMMENDATIONS TO POLICYMAKERS?

- Ensure effective wholesale competition
- Remove regulated end user prices in retail markets
- Foster dynamic pricing
- Establish harmonised price component reporting obligations for Member States
- Make sure customers can choose between different providers of flexibility services, who will compete with innovative products
- Revise national distribution network regulation to help DSOs implement smart solutions and use the flexibility in their networks
- Promote capacity based & peak time differentiated network tariffs to ensure fairness and avoid free-riding and cross-subsidisation among distribution users
TO ACHIEVE:

5. A market design and regulatory conditions that ensure sufficient generation and infrastructure investments

WE ASK FOR:

• A market design that properly values energy, flexibility and capacity
• Promotion of security of supply through energy sources diversification
  • Support to innovation via R&D funding

OUR RECOMMENDATIONS TO POLICYMAKERS?

• A regional/EU approach to evaluating generation adequacy and transmission infrastructure needs, and to the implementation of capacity markets
• A transparent value of capacity as an additional trigger for investment in generation, demand side management and storage
• Streamlining of administrative processes that today hamper investment
• More funding for research, development and demonstration, e.g. for CCS, storage, power to gas, distribution grid modernisation & immature RES technologies
• Revision of national network regulation to ensure adequate and timely cost recovery for DSO investments: traditional ones (maintenance, refurbishment, expansion) and smart ones (grid intelligence)