

Delivering a flexible, resilient and secure market: IOGP response to the proposal on Power Market Design

The International Association of Oil and Gas Producers (IOGP) welcomes the Commission's ambition to address the existing market failures in the power sector. We acknowledge that the establishment of a well-functioning electricity market where energy source can compete is a very complex task, requiring a number of changes to the existing system and engagement of various stakeholders.

In this context, IOGP - representing companies producing half of the world's oil and a third of its gas – welcomes the Commission's efforts to improve the power market design.

We would like to contribute to this debate by proposing several recommendations that can help EU policy makers in further development of a resilient, secure and flexible electricity market for all EU citizens.

1. General observations

- **IOGP welcomes many of the Commission's proposals on the power market design as they reinforce competitive energy market principles** through e.g. the phase-out of regulated prices and introducing obligations on power generators to bear balancing costs. A well-functioning power market is essential to ensure the workings of the EU's Internal Market and that ultimately consumers will benefit from affordable and competitive prices.
- **Deploying high shares of RES does not per se imply that the decarbonisation targets are met.** For instance, Germany is currently facing an Energiewende paradox: despite an increasing share of renewable energy sources, its greenhouse gas emissions are rising. The reason for this paradox is not to be found in the decision to phase out nuclear power – the decrease of nuclear generation is fully offset by an increased generation from renewables. The paradox is caused by a lack of a coherent strategy to transform the coal sector.¹
- We believe **it is key to better understand the level of investment needed to transform the power market.** The Commission states that about €379 billion investments are needed annually over the 2020-2030 period: mostly in energy efficiency, renewable energy sources and infrastructure (investment figures exclude transport sector).² However, it is not clear what impact the transformation of the power market will have on the electricity prices for EU consumers.
- **EU policy makers should evaluate the impact of initiatives in various domains on vulnerable consumers and fuel poverty.** Pressure on energy prices may continue as a result of the efforts to decarbonise the energy system. If energy prices grow faster than household income, more and more households will find it difficult to pay their energy bills, bearing in mind that taxes, levies and network generally constitute the main element in consumer electricity price. Recent European Commission data shows that on average EU consumers pay per kWh three times more for electricity than for gas (when all taxes, levies and network charges are included).³ **The EU Survey on Income and Living Conditions (EU SILC) estimates that 54 million European citizens (10.8% of the EU population) were unable to keep their home adequately warm in 2012.**⁴ As the project 'Energy Union' intends to put the consumer at the centre, we believe the energy poverty is crucial in the debate on heating and cooling electrification.

2. Establish a workable power market design based on gas and renewables

- In order to achieve a truly functioning market underpinned by gas and renewables, mature RES should be integrated under normal market conditions from 2020. These include paying for additional transmission and balancing requirements that they trigger rather than these costs being socialised. The extension of balance responsibility to all generating and consuming entities, offers a strong incentive for variable RES and other balance responsible parties to improve their forecasting, bid more accurately in the day-ahead market and be more active in the intraday markets.

¹ The German Energiewende and its Climate Paradox, Agora, 2014. Source: https://www.agora-energiewende.de/fileadmin/downloads/publikationen/Analysen/Trends_im_deutschen_Stromsektor/Analysis_Energiewende_Paradox_web_EN.pdf

² Communication 'Clean Energy For All Europeans'.

³ Report 'Energy prices and costs in Europe', European Commission, COM(2016) 769 final. Figure 3 in this report shows that the energy component of average EU household retail electricity prices equals around 75€/MWh, and for industry – slightly over 50€/MWh (Figure 6). Figure 10 shows that the energy component of average EU household retail gas prices accounts for around 35€/MWh, and for industry – slightly over 25€/MWh (Figure 12).

⁴ 'Energy poverty and vulnerable consumers in the energy sector across the EU: analysis of policies and measures', Insight_E – EC think tank, May 2015.

- **We welcome the Commission’s proposal to partially remove priority dispatch and would recommend the consideration of going step further and phase out the priority dispatch entirely as well as the curtailment rules.** Currently RES have the privilege of either priority access or guaranteed access to the total grid-system. These are market distortions, and hence need to be removed. As it is emphasised by the Commission’s Impact Assessment, the removal of priority dispatch helps better integrating variable RES generation and leads to significant system costs reductions. This will also offer access on equal terms to all resources and more than double the competitive segment of the market.⁵ If priority dispatch remains in place, Member States should ensure full transparency of dispatching rules at national level and effectiveness of market-based dispatch.
- As the EU approaches its target of generating 50% of all power from RES, mostly from variable solar and wind, it leads to a tripling of intermittent capacity (wind and solar). **The power system needs the availability of power plants ready to dispatch at short notice. Gas-fired power plants are an affordable way to guarantee flexibility and reliability in the integrated power system, while meeting EU climate goals.** Today in the most of EU Member States, we are facing overcapacity situations, while coal and lignite power plants currently account for 77% of the sector’s emissions and only ¼ of generated electricity.⁶ These plants are generally old, inefficient and not sufficiently flexible to back up efficiently the quickly expanding renewable capacity.⁷ We therefore believe, where overcapacity exists, the most polluting and inflexible plants need to receive appropriate signals that should address the overcapacity problem. When the overcapacity issue is addressed, and with the higher penetration of variable RES, gas-fired power plants will be even more needed to provide reliability and prevent the occurrence of black-outs.

3. New capacity is encouraged through scarcity pricing (price spikes)

- **Wholesale electricity prices reflecting scarcity, without intervention, would signal the need for investments in new capacity.** Therefore, price spikes should be treated as a positive sign of an efficient and cost-effective energy system where market participants are free to choose the level of hedging they prefer, revealing the true value of flexibility and energy at all times.
- In a well-functioning electricity market, unhindered price-formation drives operational choices and investment decisions. Transparent and undistorted market prices must be in place in all time horizons, and allowed to move freely without caps.
- An important prerequisite for a new energy market design is that Member States remove existing political and regulatory distortions in electricity markets without delay. Regular and standardized assessments of security of supply adequacy should be conducted on a regional basis as a tool to support national TSOs assessments. Accordingly, if potential security of supply shortages are identified then further work should be carried out to see whether these can be rectified through the use of already existing and underused gas-fired power plants, demand response measures, interconnection or storage. **If there is still expected to be a security of supply concern then as a last resort market-based CRMs may be considered.** If introduced, CRMs should be as much as possible harmonized preventing negative impact on cross border trade and be in line with current State Aid Guidelines and the EU’s Climate and Energy objectives. As such, the allocation process for CRMs should take into account elements such as cost, reliability, flexibility, efficiency and CO2 emissions.

⁵ Ibidem.

⁶ World Energy Outlook 2016, IEA, page 572.

⁷ Global Market Outlook for solar power 2015-2019, SolarPower Europe, page 28.

ANNEX

Proposal for a Regulation on the internal market for electricity

Proposal by the Commission	Amendments proposed by IOGP
<p>Article 11: Dispatching of generation and demand response</p> <p>1. Dispatching of power generation facilities and demand response shall be non-discriminatory and market based unless otherwise provided under paragraphs 2 to 4.</p> <p>2. When dispatching electricity generating installations, transmission system operators shall give priority to generating installations using renewable energy sources or high-efficiency cogeneration from small generating installations or generating installations using emerging technologies to the following extent:</p> <p>(a) generating installations using renewable energy sources or high-efficiency cogeneration with an installed electricity capacity of less than 500 kW; or</p> <p>(b) demonstration projects for innovative technologies.</p> <p>3. Where the total capacity of generating installations subject to priority dispatch under paragraph 2 is higher than 15 % of the total installed generating capacity in a Member State, point (a) of paragraph 2 shall apply only to additional generating installations using renewable energy sources or high-efficiency cogeneration with an installed electricity capacity of less than 250 kW.</p> <p>From 1 January 2026, point (a) of paragraph 2 shall apply only to generating installations using renewable energy sources or high-efficiency cogeneration with an installed electricity capacity of less than 250 kW or, if the threshold under the first sentence of this paragraph has been reached, of less than 125 kW.</p> <p>4. Generating installations using renewable energy sources or high-efficiency cogeneration which have been commissioned prior to [OP: entry into force] and have, when commissioned,</p>	<p>Article 11: Dispatching of generation and demand response</p> <p>Dispatching of power generation facilities and demand response shall be non-discriminatory and market based.</p>

~~been subject to priority dispatch under Article 15 (5) of Directive 2012/27/EU of the European Parliament and of the Council or Article 16 (2) Directive 2009/28/EC of the European Parliament and of the Council shall remain subject to priority dispatch. Priority dispatch shall no longer be applicable from the date where the generating installation is subject to significant modifications, which shall be the case at least where a new connection agreement is required or the generation capacity is increased.~~

~~5. Priority dispatch shall not endanger the secure operation of the electricity system, shall not be used as a justification for curtailment of cross-border capacities beyond what is provided for in Article 14 and shall be based on transparent and non-discriminatory criteria.~~