



Brussels, 12 May 2016
(OR. en)

8400/16

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NOTE

From: Presidency
To: Permanent Representatives Committee/Council

Subject: Messages from the Presidency on electricity market design and regional cooperation
- Presentation by the Presidency

The Framework Strategy to develop a resilient Energy Union with a forward-looking climate policy, as presented by the Commission on 25 February 2015, is a one of the key strategic objectives of the EU and outlines five interlinked dimensions for action: energy security, solidarity and trust; a fully integrated internal energy market; energy efficiency as a contribution to the moderation of energy demand; decarbonisation of the economy and an Energy Union for research, innovation and competitiveness.

In its conclusions of 19 and 20 March 2015 the European Council endorsed the above Framework Strategy which, together with the October 2014 European Council endorsement of the 2030 climate and energy targets, set a framework for the redesign of the European Union's electricity markets. It is clear that European electricity markets are facing massive challenges such as the transition towards a low carbon energy system, the cost-efficient integration of intermittent renewable energy, the move away from central conventional power plants to de-centralised renewable energy production, the changing role and increased participation of energy consumers (both households and industries) and the demanding task to safeguard security of supply in the short and long term in an efficient manner and at affordable costs.

In addition, electricity markets have to send the right signals to investors in order to make sure that the necessary long-term investments will take place and are as cost-effective as possible. The markets must be accessible to new players, reward innovative technologies, products and services and stimulate competition.

Following the above, the Commission submitted on 15 July 2015 its Communication "Launching the public consultation process on a new energy market design" (doc.11018/15) with the view to adapting the current electricity market design rules to the new challenges. This consultative process is a first step allowing the Commission to later discuss the results of the consultation with Member States and stakeholders. This Communication was adopted alongside the Communication "Delivering a New Deal for Energy Consumers" (doc.11017/15) with the aim of putting the consumers at the centre of the future energy system.

The Commission is subsequently expected to present legislative proposals by the end of 2016. To this end, recalling the exchange of views by Ministers on "The future electricity market model and the role of regional markets", held at the Informal Meeting of Energy Ministers in Amsterdam on 10-11 April 2016, the Presidency intends to give guidance to the Commission in the preparation of the above legislative proposals.

The examination of the above issues was pursued at Working Party level on 21 April and 3 May 2016. Based on this discussion and the various comments submitted by delegations, the Presidency developed messages on electricity market design and regional cooperation. The Presidency generally concluded that, as a first priority, measures are needed to improve market functioning and remove flexibility barriers. While market mechanisms can provide optimal solutions to ensure security of supply, there are different views on the role of compliant capacity mechanisms. Member States considering implementing capacity mechanism should take into account synergies of cross-border regional cooperation and avoid any disincentive for investment in interconnection, while minimising market distortion.

With the aim of providing guidance as regards this priority of improving market functioning and removing flexibility barriers, delegations will find in the Annex a set of Presidency messages. These messages will be forwarded to the Commission for consideration during the preparation of the upcoming legislative proposals on a new energy market design.

Subject to the examination by the Permanent Representatives Committee of the Presidency text set out in the Annex, the TTE (Energy) Council on 6 June 2016 is invited to welcome the Presidency's messages on electricity market design and regional cooperation.

**MESSAGES FROM THE PRESIDENCY ON ELECTRICITY MARKET DESIGN
AND REGIONAL COOPERATION**

RECALLING:

- the conclusions on the Commission Communication "Energy prices and costs in Europe", adopted by the TTE (Energy) Council on 13 June 2014,
- the conclusions on the Commission Communication "Progress towards completing the Internal Energy Market", adopted by the TTE (Energy) Council on 9 December 2014,
- the conclusions on the implementation of the "Energy Union: empowering consumers and attracting investments in the energy sector", adopted by the TTE (Energy) Council on 8 June 2015.

In view of the upcoming legislation on market design of electricity, the Commission is invited to take account of the following messages.

1. Given the need for a robust and stable regulatory framework, it is essential to fully implement and enforce existing EU legislation, including the Third Energy Package, and to timely adopt and implement widely accepted network codes and guidelines for electricity.
2. The electricity market in Europe is changing; the share of intermittent sources is growing and markets are becoming more and more interconnected which requires more coordination and cooperation between Member States. Enhanced regional cooperation, based in principle on a bottom-up approach and political commitment, is an important step towards a more integrated, effective and flexible EU market, which will increase energy security, reduce energy costs, provide more effective prices and enable further integration of renewable energy as the energy transition proceeds. Regional cooperation can also accelerate the development of infrastructure projects, which is needed to strengthen the functioning of integrated markets.

3. It is crucial to strengthen the functioning of the internal energy market and to remove flexibility barriers. In order to fully reap the benefits of an internal electricity market the insufficient transmission capacity both across and within borders should be addressed. New interconnections are needed and synchronisation of power systems to the EU networks should be aimed at. Furthermore, existing interconnection capacity should be used to its full potential. This includes a need to avoid restrictions on cross-border trade of electricity, including in times of high prices reflecting market scarcity, and optimizing capacity allocation and regional congestion management with the aim of addressing existing network constraints.
4. Considering the need for cost-effective and market based renewable support schemes, it is necessary to respect the State Aid Guidelines for environment and energy and to aim at more consistency between support schemes. Renewable energy sources should become an integrated part of the electricity market by ensuring a level playing field for all market participants and enabling renewable energy producers to be fully involved in the market, including in balancing their portfolio and reacting to market price signals.
5. Correct price signals for market actors are essential. Prices should reflect scarcity in terms of time and location and provide effective incentives to generate the necessary long-term investments and ensure security of supply.
6. An integrated European electricity market requires well-functioning short term markets and an increased level of cross-border cooperation with regard to day-ahead, intra-day and balancing markets, without hampering the proper functioning of the networks, as this will enhance security of supply at lower costs for the system and consumers.

7. While recognising the responsibility of Member States as regards ensuring security of supply, security of supply would benefit from a more coordinated and efficient approach, including a regional system adequacy assessment in addition to national adequacy assessments and regular exchanges of information on policy developments. There is a need to develop a common methodology to assess generation adequacy and, in this context, a necessity to work on a further harmonisation of methods for assessing norms and indicators for security of supply. In addition, there is a need to develop a more common approach to preparing for and managing crisis situations within the EU, while taking into account the existing well-functioning regional solutions.

8. The future electricity retail markets should ensure access to new market players (such as aggregators and ESCO's) on an equal footing and facilitate introduction of innovative technologies, products and services in order to stimulate competition and growth. It is important to promote further reduction of energy consumption in the EU and inform and empower consumers, households as well as industries, as regards possibilities to participate actively in the energy market and respond to price signals, control their energy consumption and participate in cost-effective demand response solutions. In this regard, cost efficient installation of smart meters and relevant data systems are essential. Barriers that hamper the delivery of demand response services should be removed.

