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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
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- (•) Public Authority
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* Name of the company/organisation

Norwegian Ministry of Petroleum and Energy

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

Norwegian Ministry of Petroleum and Energy, Energy and Water Resources Department

* Which countries are you most active in?

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Norway

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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?

An efficient price formation is a key element in any future market design. Prices reflecting actual market conditions provide important signals to all market participants, concerning generation, consumption and investments in new capacity. The result is a more efficient utilisation and development of the electricity system.

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The energy prices should reflect actual market conditions and fluctuate according to the underlying supply and demand of electricity. Prize zones should provide necessary signals on grid congestion and be included in the price formation. Price zones should not be limited to national borders, but reflect scarcity of available transmission capacity.

All market players should participate in the energy market and have the opportunity to respond to price signals. A clear link should be established between wholesale prices and retail prices.

* (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?

High price peaks reflecting periods of scarcity in the system, may involve political risk, and a risk of distortive market interventions. It should be recognised, and communicated, that regulated prices will increase the overall energy costs and lead to higher average prices.

A well-functioning energy market should comprise a liquid forward market where market participants can trade long-term contracts to manage price risk and assess the viability of investments through forward market prices. The regulatory framework should accommodate derivatives trading at accessible, organised market places. With a liquid forward market in place, a range of specific hedging products will emerge, based on the relevant situations and needs of the market participants.

A market design that facilitates efficient price formation in both short-term and long-term markets will minimise the need for capacity mechanisms. If capacity mechanisms are introduced, they should be designed in a way that limits distortions on the market, have a clear end-date and take into account energy adequacy in the region. Such mechanisms should allow for cross-border participation.

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

The process of aligning the balancing markets across Europe is very complex and will take time, due to the natural diversity of existing balancing markets that have been designed to accommodate the specific characteristics and needs of the local power systems. Furthermore, balancing markets work close to the operational time, meaning that the resources offered in the balancing markets must be available and activated in the relevant area on a very short notice when imbalances occur. Harmonisation of balancing markets therefore requires close cooperation and coordination between TSOs on a wide range of technical and practical issues. The process must respect the competences of the TSOs and further centralised legal measures are not the way forward.

A preferable approach is to develop more harmonised balancing markets within smaller regions. The definition of regions should be based on physical characteristics of the power systems, such as synchronous areas, and take into account existing cooperation and operational similarities, grid structure and geographical criteria. A light-handed and decentralised governance structure, based on voluntary cooperation between neighbouring TSOs, may bring about more innovative and cost-efficient solutions than detailed legal measures.

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

The CACM guideline provides the regulatory framework for the implementation of the intraday platform, and adoption and enforcement of the guideline should be the main tool to provide for a smooth process. The process will however need time, as it is technically challenging and involves numerous actors. In the longer run, there will be a need for improved regulatory oversight and surveillance of the development and operation of the intraday market coupling function, as this will be a monopoly function vital to the European intraday market.

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?

A well-functioning energy market should comprise a liquid forward market where market participants can trade long-term contracts to manage price risk and assess the viability of investments through forward market prices. The regulatory framework should accommodate derivatives trading at accessible, organised market places. With a liquid forward market in place, a range of specific hedging products will emerge, based on the relevant situations and needs of the market participants.

With the existence of liquid forward markets, there is less need for bilateral contracts between generators and consumers, and the investors may use the forward prices to manage price risk and assess the viability of investment projects.

In order to achieve a liquid and competitive forward market, the regulatory framework should stimulate participation from all types of market players, including financial companies and non-financial companies, such as small and medium sized energy companies. It is essential that energy companies can participate and clear their transactions at organised market places without being subject to strict financial regulations that does not apply to OTC-trade. A tendency where energy companies rather turn to less regulated non-cleared OTC-trading, is likely to undermine the liquidity at the exchange, with a less efficient price formation as a result.

In the Nordic region, the power derivatives' market is today well-functioning and competitive, with a high share of the transactions carried out and cleared at an organised exchange. The diversity of market participants at the exchange results in high liquidity, a broad range of available products, and a transparent and efficient formation of forward prices, to the benefit of all market participants and end-users.

* (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.

Taxes and levies on electricity will, depending on level and design, alter the prices signals and to some extent influence generation and consumption as well as long-term investments. Large deviations between countries may also influence the flow of energy. However, national taxes and levies on electricity are designed to meet different purposes and take into account various local conditions. It will be difficult and not necessarily desirable to harmonise taxes and levies at European level.

Renewable generation

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

The extensive renewables support schemes that are in place around Europe are politically decided, and differ between countries, technologies and over time. These support schemes distort true market signals for investments in renewables. A main instrument should be the EU Emissions Trading System (ETS). A cap which is sufficiently tight and predictable can contribute to higher electricity prices and thereby increased investments in renewable energy. Second, renewable power production must be fully integrated into the spot, intraday and balancing markets and be subject to efficient prices reflecting the varying value of energy. Furthermore, important market rules that apply to other generators should also apply to renewable power producers, such as balancing responsibility and dispatch based on merit-order.

* (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?

Renewable energy generators should participate in the spot, intraday and balancing markets and be subject to energy price fluctuations reflecting the underlying supply and demand for electricity. The dispatch should be based on merit order rather than production source. The TSOs should be encouraged to develop further the market solutions in order to accommodate participation from renewable generators. The regulatory framework should be flexible and forward-looking and give leeway for further development and improvements of market design.

* (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)?

Investments in renewables are influenced by all framework conditions and not only the renewables support schemes. The legislation should absolutely allow for cross-border cooperation in renewables support, but it is not possible to harmonise investment conditions across Europe. A main instrument for a coordinated approach across Member States should be the EU Emissions Trading System (ETS). A cap which is sufficiently tight and predictable, can contribute to higher electricity prices and thereby increased investments in renewable energy.

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.)?

In order to kick-start demand-response, consumers need to be subject to actual price variations, reflecting wholesale prices. Consumers should not only have access to real-time or near real-time information about prices and consumption, but also settlement and billing based on hourly prices. Smart meters are an essential tool to realize this. Smart meters also allow for new services and solutions, for example an increased degree of automation. The development of such services should be market-driven and voluntary based.

Large end-users, aggregators and other intermediaries acting on behalf of end-users should be able to participate in the balancing markets on an equal footing as supply-side participants. The markets should be settled in the most cost-efficient way.

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?

Regional cooperation on system security is beneficial, but decision-making and responsibility for system security and system operation should remain a national competence, and not transferred from the member-state to another entity, such as an RSCI.

National responsibility is no obstacle to cross-border cooperation. There are examples of cross-border cooperation today, where the responsibility is still with the national TSO.

System security is a national responsibility. The integrated market is only one of several elements that affect system security. Grid-structure, geography, national legislation and detailed knowledge about the national system is also determining for system security.

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?

ACER has already been granted an extensive mandate and the necessary decision-making powers within the framework of the third energy package. The adoption of supplementing guidelines and network codes to the third energy package will further clarify and strengthen ACERs role and influence. The priority should be implementation of the existing regulatory framework.

In line with a regional approach to market integration, the national regulators should maintain the competence to make decisions regarding regional issues. ACER has a role in facilitating cooperation between national regulators and promote coordinated decisions at regional level as regards cross-border issues and the implementation of the internal market. Within its current mandate given in the third energy package, ACER can make decisions regarding cross-border issues if the relevant regulators cannot agree.

In line with the continued integration of the energy market, there may be a need for increased regulatory oversight at European level. ACER should have a role when it comes to the surveillance of monopoly functions vital to the internal market, such as the market coupling functions.

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

ENTSO-E already play an important role in facilitating the market coupling and the integration of the power system in Europe. ENTSO-E is today a well-functioning organisation with important tasks, such as developing proposals for network codes, technical solutions for market coupling and grid investment plans. ENTSO-E is also an arena for cooperation between the TSOs in EU and non-EU member states, which is a requirement for the successful implementation of an integrated electricity market in Europe. It is essential that the future organising of ENTSO-Es continues to reflect an interconnected European energy system including its non-EU members.

Consistent with a regional approach to market integration, ENTSO-E should facilitate regional cooperation between TSOs, especially regarding implementation of the network codes and further development of the market solutions. The current organisation of ENTSO-E is well suited for this purpose, and we currently do not see the need to further formalise or strengthen the role of ENTSO-E.

* (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?

Distribution system operators (DSOs) in Europe differ and operate under various conditions and regulatory regimes. Therefore, the regulation of DSOs should remain a concern of the member states.

Data protection and ensuring data privacy is of utmost importance, and the DSOs should take the necessary steps to ensure this.

It is an important principle that metering data is the property of the consumer. Access to these data should only be provided to any third party when the consumer has directly authorized such access.

* (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?

Regulation of the design and structure of distributional tariffs should remain a national concern.

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

As the market integration proceeds, there will be a need for increased regulatory oversight and surveillance of the different monopoly functions essential to the coupling of the internal energy market. That is especially the spot and intraday market coupling functions and the platform for allocation of transmission rights. ACER should have a role in the surveillance of these functions.

The Commission should also assess the need for governance rules concerning the different roles of the NEMOs (competition vs. cooperation) and the financing of their activities.

European dimension to security of supply

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

We support the principles in the guidelines on state aid for environmental protection and energy 2014-2020 (2014/C 200/1) and believe that a harmonised methodology should be based on the same principles. Each country should analyse whether the situation requires measures, taking into account cross-border capacity. Any distortions preventing the market from delivering the right incentives for investment in generation capacity should be removed. In addition, demand-side participation should be encouraged.

* (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)?

A regional approach.

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

Yes, a regional alignment of the currently different system adequacy standards would be useful to build an efficient single market. We agree with the general principles the Commission has communicated.

* (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?

A common framework would simplify cross-border participation in capacity mechanisms. There should be no discrimination between capacity providers. De-rating procedures should be transparent and objective, in particular with respect to de-rating of interconnectors.

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

Reference models for capacity mechanisms should follow the principles in the guidelines on state aid for environmental protection and energy 2014-2020 (2014/C 200/1). The models should be reversible, time-limited, efficient, and minimize distortions of the market. There should be no distortion of cross-border trade and competition between different capacity providers, including demand-side response. The models have to consider the contribution to security of supply from capacity providers outside national borders and improved interconnection with neighbouring markets.

The decision to introduce capacity mechanisms based on a set of common principles may turn out more flexible than a harmonized methodology. Before deciding on capacity mechanism, member states should analyse whether the situation truly requires measures, taking into account cross-border capacity. Any distortions preventing the market from delivering the right incentives for investment in generation capacity removed, for instance regulated end user prices and price caps. Capacity mechanisms should only be introduced when there is a clear power system adequacy problem that cannot be solved through other measures, such as infrastructure, demand-side response and/or energy efficiency.

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

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