

**Proposal for a Regulation of the European Parliament and of the Council on the internal
market for electricity
(COM (2016) 861)**

APPROVED FINAL DOCUMENT

The Committee on Economic Activities, Trade and Tourism of Italy's Chamber of Deputies,

having concomitantly examined the following, in accordance with Rule of Procedure no. 127 of the Chamber of Deputies: the proposal for a Regulation of the European Parliament and of the Council on the internal electricity market COM(2016) 861; the proposal for a Regulation of the European Parliament and of the Council on risk-preparedness in the electricity sector and repealing Directive 2005/89/EC (COM(2016) 862); the proposal for a Regulation of the European Parliament and of the Council establishing a European Union Agency for the Cooperation of Energy Regulators (COM(2016) 863); and the proposal for a Directive of the European Parliament and of the Council on common rules for the internal market in electricity (COM(2016) 864);

whereas:

- All four proposals refer to regulations in the energy market, which is currently governed by the rules set out in the "Third Energy Package" adopted in 2009;
- Although these rules have led to real progress for consumers, such as higher market liquidity and increased cross-border trade, they now need to be updated to reflect changes that have taken place in the market, beginning with the rise of renewable energy sources and advances in digital technologies;
- The increasing role of renewable sources in the energy mix, which by their nature are more variable, less predictable and more decentralised than traditional sources, has lent particular urgency to the need to adapt the rules governing the market and the grid to an electricity market that has become more flexible and integrated;
- Overall, the proposed measures would redesign electricity systems to enable the integration of renewable sources into the grid, thus leading to a shift from a system based on large production facilities to one based on multiple small and decentralised generation plants directly connected to the distribution system, and promote the active participation of civil and industrial consumers/producers, as well as of consumer aggregators;
- The European Commission intends the proposals both to ensure that electricity flows freely to where it is most needed in response to undistorted price signals, and to accelerate the decarbonisation of the energy system;
- For all the progress achieved by the "Third Energy Package", several problems continue to beset the electricity markets. In particular, obstacles to cross-border trade impede the wholesale market, and interconnector capacities are not used to their full potential. In the retail market, prices continue to vary widely between Member States and have been steadily

increasing for domestic users owing to sizeable increases in fees for network use, taxes and levies. In addition, the cost of switching suppliers continues to act as a significant obstacle for consumers;

- Some national regulations (e.g. cost ceilings and rules prioritising dispatch from certain facilities) and some forms of government intervention (regulated prices) distort price formation and limit the development of effective competition. To focus investments where they are most needed, the price signals need to be strengthened to enable the appropriate remuneration of flexible resources (including demand response and storage) and more effective dispatching from existing generation facilities. Real-time and more transparent price signals are also needed to stimulate consumer participation, both individually and collectively;
- One of the key aims of the proposals under consideration is to enhance the internal energy market through the active participation of consumers. In particular, the European Commission intends to promote the self-generation and consumption of renewable energies. In recent years, thanks to technological developments and innovation driven by European and national policies, efficient technologies connected with renewable energy have emerged, but for the time being, self-generation continues to be hindered by a lack of common standards for consumer-producers (“prosumers”);
- Self-consumption also has the potential to mitigate grid losses, because the transition to local generation and consumption can mobilise private investment;
- The emerging model of self-consumption also opens up new opportunities for small and medium-sized businesses that have to deal with high energy prices. According to European Commission estimates, commercial consumers (SMEs, offices, warehouses) can achieve high levels of self-consumption (between 50% and 80% of their total energy requirements);
- The generation of electricity from renewable sources therefore holds out considerable promise, and should be promoted through financial instruments that make energy self-generation widely accessible, including for the most vulnerable consumers;
- As things now stand, no legal frameworks exist that would enable local energy communities to pursue their activities, even though the direct consumption of locally generated electricity and its use for (district) heating-cooling systems, with or without connection to distribution systems, is an efficient way of managing energy;
- The expansion of decentralised energy generation from renewable sources presents a number of problems. The proliferation of small-scale generating facilities requires the upgrading of the existing grid infrastructure. The upgrade entails moving from a "unidirectional" grid to one that accepts self-generated electricity from consumers, which also entails ensuring technological compatibility between the new prosumers and the distribution network;

- Many countries still have complex and costly administrative and authorisation procedures that pose a significant hindrance to the spread of small-scale self-consumption/generation projects;
- Lower costs may also be achieved through direct access to real-time data on consumption rather than to data that is not disclosed until billing time. Indeed, it has been shown that users modify their behaviour and curb their energy use when they have access to data showing their patterns of consumption.

With particular regard to the proposal for a Regulation of the European Parliament and of the Council on the internal market for electricity (COM (2016) 861);

taking cognisance of the information and analyses acquired through the hearings that the Committee conducted in the course of considering the document in question;

subject to the considerations set out above regarding the proposals of the Energy Package;

and with the further premise that:

- Within the context of the reconfiguration of the electricity market, the proposal for a Regulation on the EU market for electricity is the document that more than any other addresses bona fide technical and regulatory issues, many of which are already regulated at a European level or are being discussed in connection with the establishment of “Network Codes,” which entail the adoption of technical standards set by the Commission after consultation with national experts;
- The proposed Regulation overlaps at many points with the other proposals connected with the Energy Package, especially in the areas of regional cooperation, electricity distribution, flexibility, active consumers and local energy communities;
- Article 13 of the proposal stipulates that each bidding zone should be equal to an imbalance price area. It also specifies that the transmission system operators participating in the bidding zone review shall submit a proposal to the Commission regarding whether to amend or maintain the bidding zone configuration, and that the Commission, in the light of what is proposed, shall adopt a decision whether to modify or maintain the configuration of bidding zones;
- Article 16 prescribes that distribution tariffs shall reflect the cost of use of the distribution network by system users, including active customers, and may be differentiated according to the system users’ mode of consumption or generation. Where Member States have deployed smart metering systems, regulatory authorities may introduce time-differentiated network tariffs that reflect the use of the network and are transparent and predictable for the consumer;

- Article 18 of the proposal is predicated on the assumption that electricity resource inadequacies are mainly caused by price-restraint mechanisms that distort the market. It therefore proposes making the roll-out of long-term instruments such as capacity remuneration mechanisms (CRM) subject to the verification of several pre-conditions. Thus, a Member State found to have resource inadequacies at a national level may not introduce CRMs until it has eliminated any regulatory distortions that are preventing prices from rising, developed storage capacities and interconnections, introduced demand participation incentives and promoted energy efficiency;
- Article 20 of the proposal establishes that for Member States to apply capacity mechanisms, they must have first set a reliability benchmark that transparently indicates the level of security of supply to which they aspire, and that the benchmark shall be set by the national regulatory authority with reference to methodologies and parameters defined at the European level;
- Article 32 of the proposal stipulates that transmission system operators shall establish regional operational centres to be set up in the territory of one of the Member States of the region where it will operate. Regional operational centres shall complement the role of transmission system operators by performing functions of regional relevance;
- Article 53 of the proposal specifies that transmission and distribution system operators shall cooperate in order to achieve coordinated access to capabilities, such as distributed generation, energy storage, or demand response, that can support the particular needs both of the distribution system and of the transmission system;
- Mindful that the present final document needs to be forwarded without delay to the European Commission as part of the political dialogue, as well as to the European Parliament and the Council;

expresses a favourable opinion

with the following remarks:

- a) In general terms, the soundness and plausibility of the assumption made in the proposal that short-term price signals will lead to efficient investment choices need to be verified. This verification is all the more necessary because the design of European markets (the "target model") is characterised by a high degree of geographic and temporal standardisation of traded products, which greatly limits its ability to convey correct signals to the market about the value of energy in different locations at a given time. So it is a question of verifying whether the activation of transparent market instruments, such as the multi-year capacity markets that Italy uses, might not be a better fit for the economic life of investments. In other words, it is a matter of identifying the most appropriate structural and non-contingent solutions for the remuneration of production capabilities and sources of flexible supply;

- b)* The proposed legislation must not be allowed to create overlaps and confusion with the standards already introduced under the European Network Codes, which, moreover, have only recently been adopted. In particular, an evaluation needs to be made of whether the general rule articulated in Article 13 of the proposal, according to which each bidding zone should be equal to an imbalance price area, can be readily applied to all European electricity systems, including those whose local network constraints frequently lead to variances in the price of electricity between different locations within the same market area. For electricity systems such as this, which include Italy's, it might prove necessary to delineate imbalance price areas that do not coincide with the (very extensive) bidding zones. Rather, restricting the size of bidding zones may be the best way of ensuring that the price signal (an incentive not to create imbalances) is accurate, and that full use is made of whatever central dispatch systems are most efficient. In the absence of an accurate price signal, the management of local network constraints would become unnecessarily expensive, to the detriment of electricity consumers;
- c)* As regards the provisions in Article 13 devolving to the Commission the power of decision on whether to maintain or change the configuration of the bidding zones, some thought should be given to the possibility that it might be more appropriate to leave the decision to the discretion of national authorities;
- d)* As regards the distribution tariffs referred to in Article 16, the question of whether the proposed solution is actually the most appropriate needs to be looked at closely, given that some countries, including Italy, apply a single network tariff. While it is quite true that the single tariff vitiates the effectiveness of the price signal, it is also true that it enables the higher costs caused by structural bottlenecks and congestion to be spread out, and therefore allows the application of a uniform service charge for final customers across the entire national territory. Here too, it would be appropriate to make choices that take account of national specificities, especially when they produce positive results;
- e)* According to Article 20 the "reliability standard" shall be set by the national regulatory authority, but it would surely be more appropriate to leave that task to political decision-makers. Indeed, the proposal as it stands would prevent Member States from taking measures to achieve a higher level of security, even though the operating losses caused by crisis situations (including the cost of disconnections and their economic repercussions on the system of production) are not the same across Europe, and are always borne entirely by national systems;
- f)* Regarding the introduction of regional operation centres (ROCs), the proposed solution risks reversing the progress of countries, Italy among them, whose transmission system operators (TSOs) are already directly answerable to central government for the execution of the functions assigned to them. The proposal, however, envisages no such chain of responsibility between central government and the ROCs. In any case, the proposal seems not to be in line with the recently adopted European Network Codes (System Operational Guidelines) mentioned above, according to which regional security coordinators (whose functions are similar to those of the ROCs) may make proposals and recommendations, but

not issue binding decisions. For the sake of progressive convergence towards less fragmented systems, it might therefore be preferable to prescribe that ROCs should function rather as platforms for cooperation among operators, and that they should have only the power to provide guidance to national bodies, but not the power to issue binding directives;

- g) In general, the allocation of responsibilities between ROCs, Member States and national network operators needs to be spelled out so as to avoid the dispersion of decision-making powers and the bureaucratisation of actions to safeguard the security of the electricity system, where rapid reaction times are of the essence;
- h) Article 53 seems likely to create conflicts between transmission system operators (TSOs) and distribution system operators (DSOs) as both seek access to the same resources, leading to possible inefficiencies in the security of the electricity system. The European regulatory framework should therefore leave Member States free to design a model of cooperation for their DSOs and TSOs that matches the specific characteristics of their electricity systems, and free also to assign security responsibilities unequivocally.