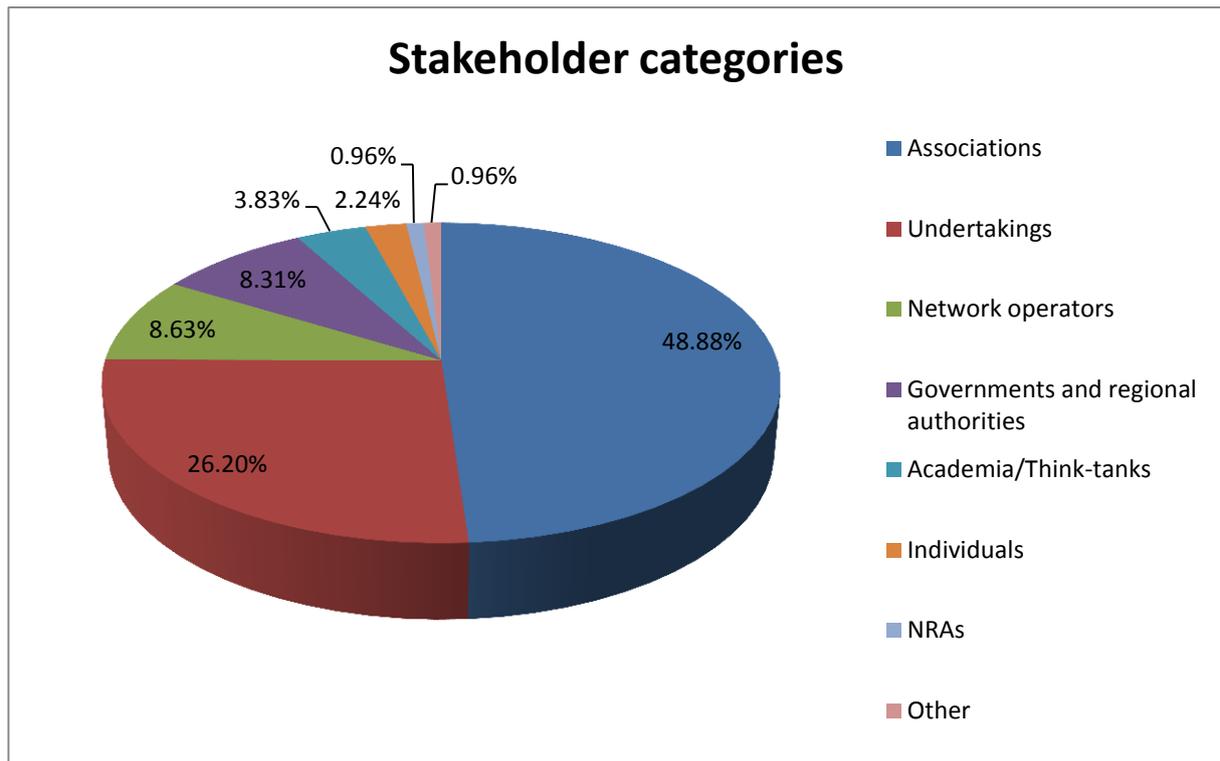


Preliminary results from the public consultation on Electricity Market Design

The Commission received 320 replies to the consultation. About 50 % of submissions come from national or EU-wide industry associations. 26% of answers stem from undertakings active in the energy sector (suppliers, intermediaries, customers), 9% from network operators. 17 national governments and several national regulatory authorities submitted also a reply. A significant number of individual citizens and academic institutes participated in the consultation (see for a detailed breakdown between different stakeholder groups chart below).



The detailed analysis of the numerous comprehensive replies is ongoing. A first assessment of the submissions has confirmed broad support of some key ideas of the planned market design initiative, while views on other issues vary.

1. Electricity market adaptations

A large majority of stakeholders agreed that **scarcity pricing**, i.e. price formation better reflecting actual demand and supply, is an important element in the future market design. It is perceived, along with current development of hedging products, as a way to enhance competitiveness. While single answers point at risks of more volatile pricing and price peaks (e.g. political acceptance, abuse of market power), others stress that those respective risks can be avoided (e.g. by hedging against volatility). Regulated prices are perceived as one of the most important obstacles to efficient scarcity pricing.

A large number of stakeholders agreed that scarcity pricing should not only relate to time, but also to **locational differences** in scarcity (e.g. by meaningful price zones or locational transmission pricing).

While some stakeholders criticised the current price zone practice for not reflecting actual scarcity and congestions within bidding zones, leading to missing investment signals for generation, new grid connections and to limitations of cross-border flows, others recalled the complexity of prices zone changes and argued that large price zones would increase liquidity.

Many submissions highlight the link between scarcity pricing and **incentives for investments/capacity** remuneration mechanisms, as well as the crucial role of scarcity pricing for kick-starting demand response at industrial and household level.

Most stakeholders agree with the need to speed up the development of integrated short-term (balancing and intraday) markets. A significant number of stakeholders argue that there is a need for legal measures, in addition to the technical network codes under development, to speed up the development of **cross-border balancing markets**, and provide for clear legal principles on non-discriminatory participation in these markets.

Most stakeholders support the full **integration of Renewable energy sources (RES) into the market**, e.g. through full balancing obligations for renewables, phasing-out priority dispatch and removing subsidies during negative price periods. Many stakeholders note that the regulatory framework should enable RES to participate in the market, e.g. by adapting gate closure times and aligning product specifications. A number of respondents also underline the need to support the development of aggregators by removing obstacles for their activity to allow full market participation of renewables.

As concerns **phasing out of public support schemes** for RES, stakeholders take different positions. While some argue for phasing out support schemes as soon as possible, others argue that they will remain an important tool until technologies have fully matured. They point at existing fossil fuel subsidies and the need to continue subsidizing RES and maintaining other market corrections as long as subsidies for traditional fuels and nuclear are not removed. Certain stakeholders underline that support could progressively take more and more the form of investment aid (as opposed to operating aid). A large majority of stakeholders is in favour of some form of **coordination of regional support schemes**. The need for an ETS reform to allow full market integration of RES was mentioned very often. Most stakeholders agree that diversified charges and levies are a source of market distortions.

2. Generation adequacy

A majority of answering stakeholders is in favour an "**energy-only**" market, possibly augmented with a strategic reserve. Many generators and some governments disagree and are in favour of capacity remuneration mechanisms. Many stakeholders share the view that properly designed energy markets would make capacity mechanisms redundant.

There is almost a consensus amongst stakeholders on the need for a more aligned **method for generation adequacy assessment**. A majority of answering stakeholders supports the idea that any legitimate claim to introduce capacity remuneration mechanisms should be based on a common methodology. When it comes to the geographical scope of the harmonized assessment, a vast majority stakeholders call for regional or EU-wide adequacy assessment, while only a minority favour a national approach. There is also support for the idea to align **adequacy standards** across Member

States. Stakeholders clearly support a common EU framework for **cross-border participation** in capacity mechanisms.

3. Retail issues

Many stakeholders identified a lack of dynamic pricing (more flexible consumer prices, reflecting the actual supply and demand of electricity) as one of the main obstacles to kick-starting **demand side response**, along with the distortion of retail prices by taxes/levies and price regulation. Other factors include market rules that discriminate consumers or aggregators who want to offer demand response, network tariff structures that are not adapted to demand response and the slow roll-out of smart metering. Some stakeholders underline that demand response should be purely market driven, where the potential is greater for industrial customers than for residential customers. Many replies point at specific **regulatory barriers** to demand response, primarily with regards to the lack of a standardised and harmonised framework for demand response (e.g. operation and settlement).

Regarding the role of DSOs, the respondents consider active system operation, neutral market facilitation and data hub management as possible functions for DSOs. Some stakeholders point at a potential conflict of interests for DSOs in their new role in case they are also active in the supply business and emphasized that the neutrality of DSOs should be ensured. A large number of the stakeholders stressed the importance of data protection and privacy, and consumer's ownership of data. Furthermore, a high number of respondents stressed the need of specific rules regarding access to data. As concerns a European approach on distribution tariffs, the views are mixed; the usefulness of some general principles is acknowledged by many stakeholders, while others stress that the concrete design should generally be considered to be subject to national regulation.

4. Regulatory framework / Governance

Stakeholders' opinions with regard to strengthening **ACER's** powers are divided. There is clear support for increasing ACER's legal powers by many stakeholders (e.g. oversight of ENTSO-E activities or decision powers for swifter alignment of NRA positions). However, the option to keep the *status quo* is also visibly present, notably in the submissions from Member States and national energy regulators. While some stakeholders mentioned a need for making ACER'S decisions more independent from national interests, others highlighted rather the need for appropriate financial and human resources for ACER to fulfil its tasks.

Stakeholders' positions with regard to strengthening **ENTSO-E** remain divided. Some stakeholders mention a possible conflict of interest in ENTSO-E's role – being at the same time an association called to represent the public interest, involved e.g. in network code drafting, and a lobby organisation with own commercial interests – and ask for measures to address this conflict. Some stakeholders have suggested in this context that the process for developing network codes should be revisited in order to provide a greater balance of interests. Some submissions advocate for including DSOs and stakeholders in the network code drafting process.

A majority of stakeholders support governance and regulatory oversight of **power exchanges**, particularly in relation to their role in market capacity. Other stakeholders are skeptical whether additional rules are needed given the existing rules in legislation on market coupling ("CACM"-Regulation).

Stakeholders mention also that the role of DSOs and their governance should be clarified in an update to the 3rd Package.

5. Regionalisation of System Operation

As concerns the proposal to foster regional cooperation of TSOs, a clear majority of stakeholders is **in favour of closer cooperation** between TSOs. Stakeholders mentioned different functions which could be better operated by TSOs in a regional set-up and called for less fragmentation in some important of the work of TSOs. Around half of those who want stronger TSO cooperation are also in favour of regional decision-making responsibilities (e.g. for Regional Security Coordination Centres). Views were split on whether national security of supply responsibility is an obstacle to cross-border cooperation and whether regional responsibility would be an option.