



EUROPEAN COMMISSION
Regulatory Scrutiny Board

Brussels,
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Opinion

Title

DG ENERGY – Impact Assessment on the Improvement of the EU electricity market design

(resubmitted version of 17 October 2016)

(A) Context

The Third Internal Energy Market Package (2009) reformed European energy market rules. Subsequent introduction of "market coupling" and "flow-based" capacity allocation enabled competition and greater cross-border flows of electricity. European electricity wholesale markets are increasingly competitive. At the retail level competition has scope to increase.

The EU goals for climate change and energy have led to a paradigm shift in electricity generation. With the Third Package, there has been a shift towards electricity from renewable energy sources ('RES-E'), mostly from solar and wind technologies. Many expect this shift to become more pronounced by 2030. Compared to traditional electricity sources, these technologies are considered more capital-intensive, lower marginal cost, variable and decentralised.

This impact assessment (IA) analyses the need and policy options for a revision of the main framework governing electricity markets and security of electricity supply policies in Europe.

(B) Overall opinion: POSITIVE WITH RESERVATIONS

The Board appreciates improvements to the report with regard to presentation, the baseline scenario and subsidiarity analysis, and the distinction between short and medium term priorities. The link with the renewable energy impact assessment is better explained. The report now reflects that the electricity market alone cannot in the short- to medium term increase the share of renewable electricity sources as required by the EU's climate and energy goals. While not measuring impacts on investment, the report provides better quantified impacts on prices. It also acknowledges that there are risks and uncertainties surrounding the policy options if markets are distorted.

The Board gives a positive opinion, on the understanding that the report shall be adjusted in order to integrate the Board's recommendations, in particular with regard to the following:

Restoring price signals for investments is one crucial element of the revised market design. The report is clearer on its view that undistorted markets deliver the right price signals for investment. The report should more convincingly explain how adequate pricing could be achieved in the presence of national capacity markets and

subsidies for renewables which might exacerbate excess capacity in the market. The report should assess the risk of persistent low electricity wholesale prices and associated consequences for the effectiveness of the initiative. What would be the effects for investment, demand response, elimination of subsidies, and consumer benefits?

The lead DG shall ensure that the report is adjusted accordingly prior to launching the interservice consultation.

(C) Further recommendations for improvements

1) Internal coherence and risks: The analysis in the report demonstrates that the vision for the EU electricity market in 2030 and beyond relies on the implementation of many different policies and assumptions, and is subject to numerous risks. The narrative of the report should more clearly reflect these risks. The report should propose modalities to review assumptions and monitor implementation at intermediate stages. The text of the report should reflect the trade-off between restoring the EU internal energy market in its pure form and government intervention to support renewable energy sources and to maintain security of supply.

2) Impact analysis: The vision of an energy Union places citizens at its core. The report should therefore better address the risks and benefits to consumers, especially with regard to expected higher price variability. It should discuss not just possible long run benefits, but also costs (including switching fees) in the short and medium term. In the same vein, the report should examine the impact of the policy on various groups of consumers.

While the Board takes note that impacts are based on modelling, the results of the modelling should be critically reviewed to avoid false expectations, in view of many assumptions taken. For instance, the modelling results in the average level of wholesale prices at 74€/MWh already in 2020 and 103€/MWh in 2030). The attainment of these price levels is hard to imagine in reality, given that currently that level is around 34€ and more renewable capacity is being deployed into the system, still benefitting from the current support schemes for RES-E (based mostly on feed-in tariffs). Lower than modelled wholesale prices could seriously undermine the investment outcome, the assumed increased engagement of consumers and demand response – the cornerstones of the EU Energy Union. Similarly, the effectiveness of the revised RES-E support schemes (as proposed in the RED II IA) is not critically discussed. First, the report needs to emphasize that they would not be based on any type of feed-in tariff but premiums on top of market revenues and these premium will be auctioned. Second, the report needs to consider the fact that such auctions may not necessarily be effective in reducing the support to renewable energy sources. This is particularly relevant in a situation where the share of renewables in the electricity generation mix is expected to grow substantially and the wholesale prices will be depressed at least until the current support schemes for RES-E are reviewed in 2024.

(D) Procedure and presentation

While the report is still very long, the inclusion of the abstract has improved the presentation of relevant information, though the issue of policy trade-offs (market vs. government interventions) should be emphasized more explicitly.

(E) RSB scrutiny process	
Reference number	2016/ENER/007, 2016/ENER/026
External expertise used	No
Date of RSB decision	4 November 2016