



EUROPEAN COMMISSION
Regulatory Scrutiny Board

Brussels,
Ares(2016)

Opinion

Title

DG ENER – Improvement of the EU electricity market design
(version of 20 July 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: NEGATIVE

The Board notes that the impact assessments on the improvement of the EU Electricity Market Design, on the Energy Union Governance, on the revision of the Renewables Directive (RES directive) and on the Bioenergy sustainable policy are in many ways interlinked. As a result, a number of issues raised by the Board are relevant to the other impact assessments.

The Board gives a negative opinion on the present impact assessment because the report contains shortcomings that need to be addressed, particularly with respect to the following issues:

Issues cross cutting to other impact assessments

(1) This IA and the IA on the revision of the renewables directive need a coherent analysis of renewable electricity support schemes. They need to reconcile different expectations of what the market will deliver in terms of the share of renewable electricity and of the participation of prosumers. Given uncertainty on these issues, both IAs should incorporate the same range of possible outcomes in their analysis.

* Note that this opinion concerns a draft impact assessment report which may differ from the one adopted.

(2) The IA should clarify and explain the content and assumptions of the baseline scenario in relation to the other parallel initiatives.

Issues specific to the present impact assessment

(3) The IA report is too long and complex to make it helpful in informing political decisions. The Board recommends that this report begin with a concise, plain-language abstract of approximately 10-15 pages. This abstract should summarise the key elements of the IA and identify the main policy trade-offs.

(4) The report should present a clear vision for the EU electricity market in 2030 and beyond with a distinction between immediate challenges and longer term developments. This vision needs to be coherent with EU policies on competition, climate and energy. It also needs to be consistent with the parallel initiatives, notably the revision of the RES Directive. In particular, this applies to the assumptions and expectations on what the new electricity market design could deliver on its own and whether the renewable target requires complementary market intervention.

(5) Based on a common (with other parallel initiatives) baseline scenario, the report should prioritise the issues to be addressed, present an appropriate sequencing and strengthen the treatment of subsidiarity considerations such as for action related to energy poverty and distribution system operators.

(6) When assessing the impacts of the different options, the report should indicate whether and how the models of “energy only markets” will coexist with capacity mechanisms and assess the risks of an uncoordinated introduction of capacity remuneration mechanisms across the EU. The impact analysis should also report on the effectiveness of the options to deliver the adequate investment and price responses.

The lead DG shall ensure that the report is revised accordingly and resubmitted to the Board, which will issue a new opinion on the revised draft.

(C) Main recommendations for improvements

(1) The analysis of support schemes for renewable electricity should be consistent across this impact assessment and the one covering renewable energy sources. The reports should clarify what support schemes will be needed, and whether these are needed only in case the market fails to deliver the 2030 EU target of at least 27% of RES in final energy consumption, or will be used to promote certain types of renewable energy.

(2) The IA should take into account the tendering procedure envisaged for procuring support for renewable energy producers and assess its impact on the electricity market. In addition, even though the report does not present a blueprint for a capacity remuneration mechanism (as it is in the remit of the state-aid guidelines/EU competition policy), it should analyse possible detrimental effects of such mechanisms being introduced in the EU in an uncoordinated fashion. In particular, the IA should examine distortions to investment incentives and price setting mechanisms.

(3) The expected involvement of consumers and prosumers in supplying electricity and managing its demand has to be consistent across the two impact assessments. The analysis should integrate the effects of potentially more volatile electricity prices and high fixed network costs on prosumer involvement and on the long-term risk that these might disconnect from the network as local storage technology evolves.

(4) In devising the options, the report should be proportionate to the importance of the problems/objectives and realistic in assessing what can be achieved. For instance, options

linked to the issue of energy poverty (being part of the social policy) should be built around increasing transparency and peer pressure among Member States rather than the single market motive.

(5) The baseline scenario should be clarified, including the link with the 2016 reference scenario and underlying assumptions.

Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated into the final version of the impact assessment report.

(D) Procedure and presentation

The IA report needs to be more reader-friendly and helpful for decision-making. The report should contain a 10-15 page abstract that succinctly presents the main elements of the analysis, the policy tradeoffs and the conclusions. The main text should be streamlined to contain the crucial elements of the analysis in the main part of the report.

(E) RSB scrutiny process

Reference number	2016/ENER/007, 2016/ENER/026
External expertise used	No
Date of RSB meeting	14 September 2016