

## **EFET Response to the white paper „an electricity market for the energy transition” Executive Summary**

(Original version in German prevails)

EFET Deutschland (EFET) welcomes the willingness of the federal economy ministry (BMW) to pursue the development of the Energy Only Market (EOM).

As already highlighted in our response to the Green Paper on 18th December 2014 as well as in the position of EFET Deutschland on the discussion on a new market design for Germany in October 2014, EFET considers the development of the internal market as necessary to improve the efficiency of the energy market.

### **I. Essential demands of EFET to the further development of the EOM**

In particular the following measures mentioned in the white paper will strengthen the EOM and should be realised immediately:

- Free price setting and transparent control of market abuse practices according to competition law
- Strengthening confidence in the balancing rules
- Embedding the electricity market in the wider European context
- Opening balancing markets to new market participants
- Gradually introducing smart meters
- Making further progress on network expansion, where needed

Among other things, the EOM must be developed in such a way that the connection between the consumer and the market is improved. In the future, consumers must have the possibility to react directly to market prices. Only that way can they reduce their demand during shortage and high price peaks. Thus, efficient adaptation of consumption can be achieved, and arbitrary load shedding (and brownouts) avoided. Transparency ensures that the consumer receives the relevant information and can act accordingly. The introduction of smart meters and the reform of the network fees are important steps to reach this aim.

Fundamentally, EFET supports the removal of all obstacles which prevent an efficient use of available load flexibility. It must be guaranteed that there are no distortions linked to “dynamic cost components”, such as network fees and RES subsidies (EEG). In other words: Electricity price components, like network fees and RES subsidies, should have no influence on short-term dispatch decisions. Therefore, EFET rejects the link of such electricity price components to the market price.

In the opinion of EFET, the expansion of the transmission network with the aim to resolve structural congestions is important for a well-functioning market and facilitates the efficient integration of renewable energy. However, the use of the current available infrastructure should be optimised first, for example through a critical analysis of TSOs’ security margins for the calculation of the available cross-border capacity in order to provide more capacity for the market and for market coupling.

Furthermore, EFET observes with concern that other measures are planned which will further limit the market and impede free and rational price formation. EFET would rather have expected that measures be taken which strengthen the market and secure the future of the EOM, as well as weaken existing regulatory obstacles. In this context we are critical of measure No. 19 of the white paper introducing a “capacity reserve”, because details are still missing on how the reserve can be completely decoupled from the market. The interaction with the market has not been considered. Technically constrained rampings to achieve the minimum partial load and the full requested load of the reserve capacity, as well as the availability phase, have, from an EFET point of view, an influence on the market (energy or balancing market).

EFET also argues that reaching climate action goals will require strengthening emissions trading instead of taking pure national measures. By supporting renewable energy in Germany or temporarily contracting lignite coal fired power plants in a reserve, only national climate goals can be reached, at best. These measures do not help achieve European targets, because CO<sub>2</sub> certificates remain on the market and therefore a reduction of emissions cannot be achieved. Hence, EFET strongly supports a European approach to reaching climate objectives.

As already mentioned in our response to the Green Paper, renewable energy integration efforts are not contemplated in the White Paper, although RES-E already represents a significant part of the generation capacity in Germany today.

From the point of view of EFET the following points should be considered for the further development of the energy market:

- Integration of renewable energy in the market, e.g. thanks to full balance responsibility, abolition of the purchase obligation by the system operator
- A comprehensive balancing framework beyond control area borders
- Maintenance of the DE/AT- bidding zone
- Keeping the possibility of ex-post schedule adjustments

Finally EFET remains concerned with the discussion on loop flows. In the opinion of EFET, the current attempts to reduce or avoid loop flows are not appropriately conducted. The redelineation of existing, liquid bidding zones for congestion management purposes impede the liberalisation and opening of the energy market. Reducing cross-border capacity in order to avoid or reduce loop flows threatens the market and limits the exchange of energy between bidding zones. Instead, the system should be optimised and managed independently of national borders through cross-border redispatch. The efficiency of the whole European system, not national systems, must be the priority.