

Winter package - Top 5 most important Wholesale Market issues

The Third Internal Energy Market Package from 2009 laid the foundation for increasing competition and improving security of supply in the European wholesale market. The Third Package also created the possibility to enact secondary legislation for the European electricity market in the form of the network codes and guidelines that are being adopted these years.

The challenges for the electricity market are however continuously increasing with the vast deployment of capital intensive low marginal cost and variable electricity generation from renewable energy sources. In the light of the Energy Union framework, the European Commission is now proposing a new set of legislative measures in the so-called Winter Package with the aim to address these challenges.

The challenges for the wholesale market are summarised in a range of initiatives to better facilitate variable generation, create a more level playing field for operating generation assets and strengthening security of supply.

This document provides a short summary of the top 5 most important initiatives regarding the wholesale market and security of supply and the views of the Danish Energy Association on these initiatives.

1. Better coordination among TSOs¹

The European wholesale market is heavily reliant on well-functioning cross border trade and this highlights the need for TSO cooperation in the operation of the grid infrastructure.

The European Commission proposes to enhance the current set up of existing Regional Security Coordinators (RSCs) by creating Regional Operational Centres (ROCs), centralising some additional functions at regional level over relevant geographical areas and delineating competences between ROCs and national TSOs. A limited number of well-defined regions, covering the whole EU, based on the grid topology should be defined to play an effective

¹ Electricity Directive - articles 40, 61, 62 and Electricity Regulation - articles 3, 5, 31-48 and ACER regulation articles 7-10.

coordination role. One ROC will perform all functions for a given region. This option envisages an enhanced cooperative decision-making with a possibility to entrust ROCs with decision making competences on a number of issues

The Danish Energy Association sees a need for a much stronger TSO cooperation than we can expect to materialise the coming years. The current establishment of Regional Security Centres (RSCs) as mere advisory bodies to the national TSOs will not deliver the needed regionalisation of grid and system operation. The Danish Energy Association supports the approach of allocating responsibility and decision making mandates to Regional Operation Centres (ROCs) to secure a planning and operation of the physical grid that best serves the internal market and cross border trade.

2. Market-based procurement of non-frequency ancillary services²

Non-frequency ancillary services – reactive power, inertia, black-start capability – become increasingly scarce as power station capacity is reduced. There is a need to find ways to endure continued provision of these services.

The EC notes that there is a big difference across Member States of how - and if - these services are remunerated. The EC emphasize that there is a need for guidelines and principles for how Member States should procure non-frequency ancillary services and from whom.

The Danish Energi Association supports the EC in their suggestion. We believe that all products which are needed to operate the power system – frequency or non-frequency – must be procured in market places. If not there is a risk that valuable assets will close, because owners do not see price signal for all his services. We note that the EC provides a valuable interpretation of the future direction, by not only having a very strong focus on making markets for ancillary services, but also to ensure that these markets are driven by competition between market participants and not gradually becoming included in the realm of TSOs.

3. Improve the institutional framework³

In the development of new European regulation it is imperative to make sure that existing regulation is complied with in order for the regulation to maintain a high credibility. A closer linked internal market requires a more focused regulatory framework to counteract national or individual interests and the current state of the internal market portrays pertinent regulatory gaps.

The European Commission suggests to adapt ACERs decision making power to these regulatory gaps.

² Electricity Directive – article 40, 54, 59

³ ACER regulation - several articles

The Danish Energy Association believes that the internal energy market would benefit from a stronger European regulatory voice. This can partly be implemented by ACER more proactively using its mandate to monitor the market and highlight practices that are not compliant with the market regulation, but it is also clear that additional decision making powers and responsibilities are needed to meet the increasing issues of cross-border relevance. The suggestions for ACER to guarantee regulatory oversight over the Regional Operational Centres (ROCs) and at its own initiative make recommendations are steps in the right direction.

4. Improved generation adequacy methodology⁴

The assessment of security of supply is currently done by each individual Member States, each with their own method, assumptions and input data. Regional assessment of security of supply is often done, but not to the extent necessary. Currently, Member States have a fair amount of leeway in tailoring their assessments to the problem at hand, and to 'by pass' the role of a regional security of supply assessments. There is a risk that this influences neighbouring countries negatively if capacity markets are implemented when other measures could have been used, because markets participants do not compete on a level playing field. The question is not whether generation adequacy assessment methodologies should be harmonised, but rather the degree of harmonisation.

The EC prefers a very high degree of harmonisation. Concretely, the EC proposes a model where 1) ENTSOE develops a common method covering the entire EU, and 2) ENTSOE is the only method used in the evaluation of need for capacity markets – not the Member States which faces problems to security of supply.

The Danish Energy Association agrees that there is a need for harmonisation. However, we do feel that the Commission goes a bit too far: having a single method, with calculations exclusively carried out by ENTSOE, puts quite a bit of pressure on having a method from the start which adequately reflects certain local characteristics, e.g. correct handling of how CHP-plants contribute to security of supply.

5. Cross-border participation in capacity mechanisms⁵

Cross-border participation in capacity mechanisms is a clear demand from the EC, so that market participants outside Member States with capacity mechanism can compete for capacity contracts. Finding a method for cross-border participation is notoriously difficult, especially where some countries have energy-only markets and some supplement with a capacity market. The precise method for how cross-border participation is done is an important part of keeping a level playing field for market participants within the internal energy market. None of Denmark's electrical neighbours have capacity markets. This will change with Viking link (interconnector between UK and Denmark) as of 2022. In previous years, Germany has considered capacity markets. Getting the method right from the start is very important.

⁴ Electricity Regulation - article 18, 19 and ACER Regulation - article 10,

⁵ Electricity Regulation - article 20, 21, 23

The EC has not presented a preferred solution, but is likely to be contained within 1) issuing guiding principles for the method + governance of participation and 2) harmonising the capacity mechanism itself (not just the cross-border participation) on top of the elements in 1).

The Danish Energy association believes that harmonisation of both capacity mechanisms and sound guiding principles for cross-border participation is the right solution. This gives electricity producers the best position for competing in the EU internal market.