

Energy Cities' Response to the New Energy Market Design Consultation

European Commission, DG Energy - ENER.B.2

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Executive Summary:

Energy Cities welcomes the Commission's initiative to launch a public consultation process on a new energy market design, notably as it aims at establishing a market that can fully integrate the increasing share of local renewable energy. A new market design that puts local renewable energy at its core will reduce costs, guarantee security of supply and foster innovation, sustainability and economic growth.

In our view, the new energy market design should level the playing field for all energy producers on the market, from private companies over municipalities and communities to prosumers. Especially local authorities and their citizens, who are the backbone of the energy transition, should be able to become energy producers on an equal footing with all other players on the market.

However, **local authorities still face important barriers when aiming to integrate in the energy market as energy producers and suppliers.**

Grid connection costs are unequally shared between local renewable energy producers and grid operators. This significantly increases grid connection costs for local renewable energy producers. These costs are also high, because local renewable energy producers do not have the option to locate their locally bound project to the most suitable point where the grid is not constrained. In other cases, the assigned connection points for local renewable energy projects is very far from the installation, which also makes the grid connection more costly. In order to address this barrier, the grid connection costs should be equally shared between local renewable energy producers and grid operators. Moreover, local renewable energy producers should be enabled to pay a lower share of these costs, the further away the assigned grid connection point is from their installation.

Another important barrier for local authorities engaged in renewable energy production and distribution concerns their **constrained access to complete energy data**. Currently, local authorities have to acquire energy data from many different providers, which amounts to a complex, time-consuming and ineffective process. Furthermore, the energy data is often incomplete, which creates a vital obstacle for local authorities as they need precise energy data in order to plan for their energy supply until 2030. To address this barrier, the **role of DSOs should be enhanced in the new energy market design**. DSOs should act as neutral market facilitators and be in charge of aggregating the energy data and providing all players on the market with the data, including municipalities. This would largely facilitate the local energy transition. By **making DSOs a one-stop shop** for aggregating and distributing energy data as neutral market facilitators, municipalities would have easier and faster access to energy data and therefore would be able to plan their energy supply more effectively for the long term.

The new energy market design should serve as an opportunity for the Commission and Member States to eliminate these barriers, so that local authorities can fully compete on a flexible and integrated energy market and fulfill their role as the main driver of the energy transition.

- 1) ***Would prices which reflect actual scarcity (in terms of time and location) be an important ingredient to the future market design? Would this also include the need for prices which reflect scarcity of available transmission capacity?***



Prices should reward flexible production and consumption of renewables, especially by small-scale and medium prosumers, and take advantage of demand-side response and storage.

- 2) *Which challenges and opportunities could arise from prices which reflect actual scarcity? How can the challenges be addressed? Could these prices make capacity mechanisms redundant?*
- 3) *Progress in aligning the fragmented balancing markets remains slow; should the EU try to accelerate the process, if need be through legal measures?*
- 4) *What can be done to provide for the smooth implementation of the agreed EU wide intraday platform?*
- 5) ***Are long-term contracts between generators and consumers required to provide investment certainty for new generation capacity? What barriers, if any, prevent such long-term hedging products from emerging? Is there any role for the public sector in enabling markets for long term contracts?***



The public sector can lead by example by shifting to 100 % renewable electricity. However, in order to facilitate this, local public authorities should be able to become energy producers on an equal footing with all other players in the market. Moreover, long-term contracts and power purchase agreements can help provide more investment certainty for new small-scale, decentralized as well as large-scale renewable generation capacity. In addition to this, maintaining guaranteed feed-in-tariffs, which have fueled investment in local renewable energy by providing investment security and certainty for private investors, are crucial to enabling further investment in local renewable energy projects.

- 6) ***To what extent do you think that the divergence of taxes and charges levied on electricity in different member states creates distortions in terms of directing investments efficiently or hamper the free flow of energy?***



The tax issue is important for local authorities engaged in renewable energy. However, this is not primarily linked to the divergence of taxes and charges levied on electricity across Member States. Member States should allow the local level to benefit more from those tax revenues. Thereby, local authorities can invest these revenues in renewable energy and energy efficiency projects. Best practice would be to allow local authorities to



levy these taxes and charges at their own level, so that the revenue is reinvested in the local economy and creates local jobs.

It is also important to support renewables by incentivizing producers to supply electricity to the grid (e.g. through exemption to pay duties or tariffs) and to remove discriminatory grid charges so that renewable energy producers, especially small-scale ones such as communities and municipalities, can have fair access to the grid.

7) ***What needs to be done to allow investment in renewables to be increasingly driven by market signals?***



Although renewables are already cost-competitive, there are currently no stable investment conditions in place to support them. The market design should therefore provide long-term price signals and create the necessary stability to trigger investment in renewables. Therefore it is important that the connection costs are widely distributed towards all energy producers.

A better access to financing is needed for investments in local renewable energy projects. Member States should make use of innovative financing schemes such as revolving loan funds, green bonds or holding funds to drive local investment in renewable energy. The creation of ambitious green investment banks can also fuel investment in local renewable energy.

The market should also facilitate access and participation for actors like municipalities and citizens which are the backbone of the energy transition. These actors should be at the heart of the new market design. The governance of the new energy market should always include a local player, such as a city representative or a representative from a municipal energy producer.

8) ***Which obstacles, if any, would you see to fully integrating renewable energy generators into the market, including into the balancing and intraday markets, as well as regarding dispatch based on the merit order?***



Access to the grid is a key priority for local energy actors such as municipalities and communities and needs to be a key principle of the new market design. This means that priority access and dispatch for local renewable energy should be maintained. Renewable electricity is produced at almost zero marginal costs and should therefore be the first one sold onto the market. There should be a binding obligation for grid operators to allow local renewable energy projects to have access to the grid, enshrined in Member States' law and imposed through the new renewable energy directive.



Furthermore, the following key barriers municipalities and communities face when trying to implement their renewable energy projects should be removed:

- Municipal and community renewable energy projects have often difficulty in obtaining accurate information on the grid connection process, such as timetables for processing requests and establishing a connection.
- Furthermore, grid connection processes are often long, complicated and overly costly for municipal and community renewable energy projects.
- Grid connection costs in Member States like France are unequally shared between the local renewable energy producers and grid operators, which significantly increases grid connection costs for their projects. Grid connection costs are also high for municipal and community renewable energy projects because they do not have the option to locate their locally bound project to the most suitable point where the grid is not constrained. In other cases, the assigned connection points for local renewable energy projects is very far from the installation, which increases grid connection costs.
- Moreover, some grid operators in Member States refuse municipal and community renewable energy projects grid access with the excuse of lack of capacity. In the Czech Republic for instance, even small-scale photovoltaic installations are refused their connection approval because of insufficient grid capacity. In Poland, there is no priority and guaranteed connection to the grid for local renewable energy projects.

Administrative and authorization procedures are overly complex and lengthy for municipal and community renewable energy projects as they have to acquire permits and licenses from many different administrative bodies. In Malta e.g. it may take several years until a local renewable energy project has obtained all permits and licenses and can connect to the grid.

Access to finance is still a key barrier for municipal and community renewable energy projects. In Member States such as the Netherlands, Croatia or Romania, credit institutions remain reluctant to finance local renewable energy projects and show a high risk aversion towards these projects. Moreover, the slashing of feed-in-tariffs in many member states and the unclear repercussions of new envisaged support schemes, due to compliance with the new state aid guidelines for environmental protection and energy, has significantly increased investment uncertainty for local renewable energy projects and has halted their further development.



Social acceptance of wind projects by the local population remains a key issue and threatens market access for these projects. In member states such as The Netherlands and Belgium, some wind projects have met with fierce resistance, sometimes due to “Not in my backyard” behavior, but also because no direct revenues or benefits for citizens and local stakeholders resulted from a project. Local resistance constituted a significant implementation obstacle, when these renewable energy projects were imposed in a top-down manner, without involving citizens and local stakeholders from the start in project planning and development but instead presenting them already with a fait accompli. A true bottom-up approach includes citizens and local stakeholders as equal interest groups in a renewable energy project and allows them to voice and make their concerns heard from the start of such a project.

In order to fully integrate local renewable energy generators such as municipalities and communities into the market, several actions are needed. Firstly, one-stop shops should be established in each member state which bring together all administrative procedures needed to establish a local renewable energy project and quickens their access to the energy market. Secondly, grid connection costs between local renewable energy producers and grid operators have to be equally shared, with local renewable energy producers having to bear less of the costs, the further away the assigned grid connection point is from their installation. Thirdly, citizens and municipalities need to be actively involved from the renewable energy project’s start in project development and planning, in order to increase social acceptance and speed up market access of these projects. The public participation dimension of the River Basin Management Plans provides useful guidance on how to involve the public effectively in local projects. Moreover, citizens and municipalities should be able to obtain co-ownership (like e.g. in Denmark or Belgium) of a renewable energy project, in order to be actively engaged in the energy transition and participate as equal players in the energy market.

- 9) ***Should there be a more coordinated approach across member states for renewables support schemes? What are the main barriers to regional support schemes and how could these barriers be removed (e.g. through legislation)?***



Regional cooperation between Member States should be strengthened through the use of cooperation mechanisms. Additionally, trans-local cooperation between local renewable energy producers such as municipalities should be encouraged.



- 10) *Where do you see the main obstacles that should be tackled to kick-start demand-response (e.g. insufficient flexible prices, (regulatory) barriers for aggregators/customers, lack of access to smart home technologies, no obligation to offer the possibility for end customers to participate in the balancing market through a demand response scheme, etc.)?*
- 11) *While electricity markets are coupled within the EU and linked to its neighbors, system operation is still carried out by national TSOs. Regional Security Coordination Initiatives (RSCIs) such as CORESO or TSC have a purely advisory role today. Should the RSCIs be gradually strengthened also including decision making responsibilities when necessary? Is the current national responsibility for system security an obstacle to cross-border cooperation? Would a regional responsibility for system security be better suited to the realities of the integrated market?*
- 12) *Fragmented national regulatory oversight seems to be inefficient for harmonized parts of the electricity system (e.g. market coupling). Would you see benefits in strengthening ACER's role?*
- 13) *Would you see benefits in strengthening the role of the ENTSOs? How could this best be achieved? What regulatory oversight is needed?*
- 14) ***What should be the future role and governance rules for DSOs? How should access to metering data be adapted (data handling and ensuring data privacy etc.) in light of market and technological developments? Are additional provisions on management of and access by the relevant parties (end-customers, DSOs, TSOs, suppliers, third party service providers and regulators) to the metering data required?***



DSOs should be given an enhanced role in the new energy market design. They should act as neutral market facilitators and be in charge of aggregating the energy data and providing all players on the market with the data, including municipalities in order to facilitate the local energy transition. At the moment, especially municipalities engaged in renewable energy have difficulties in obtaining the exact energy data for their territory, data they would need in order to plan for their energy supply until 2030. They have to acquire the data from many different providers, which amounts to a complex, time-consuming and ineffective process. By entrusting DSOs with the principal responsibility of aggregating and distributing the energy data as neutral market facilitators, municipalities which drive the local energy transition could have easier access to energy data and therefore be able to plan their energy supply more effectively for the long-term.

- 15) *Shall there be a European approach to distribution tariffs? If yes, what aspects should be covered; for example tariff structure and/or, tariff components (fixed, capacity vs. energy, timely or locational differentiation) and treatment of self-generation?*
- 16) *As power exchanges are an integral part of market coupling – should governance rules for power exchanges be considered?*



- 17) *Is there a need for a harmonized methodology to assess power system adequacy?*
- 18) *What would be the appropriate geographic scope of a harmonized adequacy methodology and assessment (e.g. EU-wide, regional or national as well as neighboring countries)?*
- 19) *Would an alignment of the currently different system adequacy standards across the EU be useful to build an efficient single market?*
- 20) *Would there be a benefit in a common European framework for cross-border participation in capacity mechanisms? If yes, what should be the elements of such a framework? Would there be a benefit in providing reference models for capacity mechanisms? If so, what should they look like?*
- 21) *Should the decision to introduce capacity mechanisms be based on a harmonized methodology to assess power system adequacy?*

