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European Energy Regulation A Bridge to 2025

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Electricity Wholesale Markets

- REN believes that the completion of the Internal Electricity Market is a fundamental step towards new levels of efficiency and to the general optimization of the sector, but to reach these goals it is necessary to strengthen infrastructures. Ren stresses the argument that market integration can only be achieved with good interconnections and with the end of the so called “*electrical islands*” still existing in Europe.
- TSOs are responsible for the stability of the system and the present (and future) levels of intermittent production is a major concern to REN. To accommodate large amounts of intermittency, a good infrastructure is fundamental not only for the security of the system, but also because it is the most cost-effective way to deal with this new reality.
- Because TSOs activity is regulated NRAs and Governments must create the adequate mechanisms and incentives for the development of infrastructures whenever they are proved necessary.

Renewables growth driving changes in generation

- Portugal is one of the European countries with greater penetration of renewables, a significant part of which is intermittent and non-storable. From a TSO perspective, this fact poses considerable challenges for electricity system operation and induces ancillary service costs that are non-negligible. It is fundamental that every stakeholder in the sector is responsible for its own benefits/costs. In our point of view, this is the best way to gain transparency and to avoid invisible “cross-subsidies” between agents.

Policy interventions to ensure adequacy

- REN believes that it is fundamental and urgent the development of products (on either the generation side or the demand side) which can give the TSO a quick response mechanism to ensure that balancing reserve is available in a robust and cost-efficient way.

Gas Wholesale Markets

REN Group contribution for the ACER public consultation on “A Bridge to 2025” - 16 Junho 2014

- REN supports the development of the European Single Market. To reach this objective in a coordinated way it is important to finish the network codes on time. The reinforcement of gas infrastructures in some specific areas is essential for market development.
- It is important to define the mechanisms for capacity allocation and the common rules for new cross-border cost allocation.

Uncertain gas demand and supply

- The increase of natural gas security of supply in Europe can be obtained through the diversification of sources in articulation with the development of new infrastructures. It is vital to eliminate the interconnection limitations still existing between some European regions.
- The demand decreases verified in the last years have to be reversed, to avoid the negative spiral (low demand -> higher prices -> lower demand). Developing new gas utilizations (transports; micro CHP; small scale LNG; etc.) is vital for this objective.

The gas market's role in providing flexibility

- Several policy measures (non-market based support schemes, lack of balancing responsibility, RES priority dispatch) and changes on the price of coal induced a significant reduction of competitiveness of gas-fired power generation. In this context, CCGT are no more “base load power stations”, but are becoming “peak power stations”, working to supply the temporary needs of the electrical system. The need for system flexibility will increase as more variable renewable generation joins the power system.
- Gas can provide the flexibility the electrical sector needs, but its cost has to be determined and correctly inputted to avoid cross-subsidies between sectors.

Infrastructure Investments

- For new interconnections a new cost-sharing allocation mechanism should be developed. The present ITC mechanism is not useful anymore.
- A harmonized development of the needed infrastructures all over Europe is crucial for the success of the competitiveness strategy in EU. The financial perspective from which each investor looks at these infrastructures is critical for its harmonized development. This will be achieved in a more efficient way if there is a top strategy covering economic, financial and technical visions, scenarios and guidelines.
- For the success of the implementation of the infrastructure strategy, the revenues that each of the similar energy infrastructures generate need to present a clear and comparable profile between them. So a clear and stable framework for financing, implementation and payback is a necessary pre-requisite that must be previously set and linked to all Projects of Common Interest (PCI).

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- There is not an alignment of the regulatory mechanisms within EU at the present. It is of utmost relevance the need for clear and stable regulatory rules in this field. This is also fundamental to level the interest in these projects and to reinforce trust to the investors.
- The rating of European interest investments shouldn't be overcharged with the country sovereign rating. PCIs are European projects, so similar PCIs should have similar ratings no matter where they are located.
- Energy assets are recovered in 30-40 years, and there is the perception that such deadlines are not feasible for the financial market, for which the maximum term can be 15 to 20 years. The articulation of these two realities is a crucial structural condition to facilitate the development of energy infra-structures.

Consumer retail markets and the role of DSOs

- REN considers that Demand Side Response (DSR) is a useful and cost effective mechanism to give flexibility to the electrical system, allowing the accommodation of large amounts of renewables.
- DSR agents (alone or aggregated) should be treated as market participants in the same way producers are today, creating conditions for optimization of the necessary flexibility to the system.
- REN supports that DSR should be encouraged and the market based solutions with a voluntary participation from costumers are those that best meet the challenges of demand side management. However, REN considers that specific issues such as System Frequency Control (DSR SFC as proposed in the draft Network Code for Demand Connection) should be enforced and treated as mandatory requirements. This will create, with benefit for users, the necessary conditions for secure integration of higher levels of renewables. It should be remembered that neglecting this level of action will reduce the pan-European system resilience and constraint European common goals of GHG reduction, security of supply and high integration of renewables.
- Interaction and cooperation between TSOs and DSOs is important. To ensure system security and efficiency, an enhanced governance structure could help the operational relationship between TSOs and DSOs.

Implications for Governance

- Clear governance is vital for a robust and efficient decision making process in the scope of the Single Energy Market and the growing integration of markets. Regional Security Coordination Centres (RSCCs) should only be developed when proved to be necessary. It is important to avoid unnecessary task superposition of responsibilities or additional bureaucratic burdens.
- Being a TSO, REN is aware of its duties as far as Security of Supply is concerned and any dilution of this responsibility through regional entities is a major concern for us.
- REN believes that the regulatory oversight of entities participating in the construction of a liquid and sustainable internal gas market is a cornerstone to ensure the right balance between the desired flexibility given to market agents in Europe and the protection of

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public interest within Member States. This would be the case of power exchanges, trading and capacity allocation platforms (for example gas capacity booking platforms such as Prisma). This monitoring should be, in the first instance, a function of national regulatory authorities as long as these market facilitators act within a national scope, or in the case of entities with responsibilities at EU level, as is the case of capacity booking platform operators, this function belongs to the Agency of Regulators, ACER.

- Considering the deep changes the European gas sector is passing through and the need to better exploit and understand the details of the 3rd Energy Package we consider that it is still premature to take decisions about ENTSOG governance.



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