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ENCLOSURE 1  
ENCLOSURE BELONGING TO Response to ACER Consultation "European Energy Regulation - A bridge to 2025"  
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In this enclosure to the letter (with reference number: CRE – REG 14 – 032) TenneT TSO GmbH and TenneT TSO B.V. (hereafter: "**TenneT**") are pleased to provide their consolidated view to ACER's public consultation on "European Energy Regulation – A bridge to 2025". In its response TenneT will touch upon three topics, i.e. European wholesale markets for electricity, infrastructure investments and governance in cross-border cooperation.

### **Electricity wholesale markets**

The core tasks of a TSO are to ensure the security of supply and serve the market. Today, the turnaround in energy policy towards Renewable Energy Sources (hereafter: "**RES**") is one of the determining factors in the European energy landscape. This imposes big technical and economic challenges on TSOs. Very much in line with ACER's finding TenneT sees the following four as the major challenges stemming from the integration of RES:

1. Congestions in the transmission network which put system security and market integration at risk;
2. Excessive costs of electricity production from renewables, challenging financial abilities and acceptance;
3. Insufficient coordination of national measures with European neighbours making the feasibility of national targets questionable; and
4. Risk of insufficient investment incentives in generation, threatening medium and long-term adequacy.

The challenges identified by ACER are similar to the challenges addressed by TenneT in its "White paper on a sustainable Market Design", which is available on TenneT's website:

[http://www.tennet.eu/nl/fileadmin/downloads/News/White\\_Paper\\_on\\_a\\_Sustainable\\_Market\\_Design\\_1\\_.pdf](http://www.tennet.eu/nl/fileadmin/downloads/News/White_Paper_on_a_Sustainable_Market_Design_1_.pdf)

The white paper gives an overview of the current challenges and potential cornerstones to overcome the present shortcomings.

In order to cope with the identified challenges, TenneT suggests the following actions to meet the enhanced requirements for a power system with a high in-feed from renewables. Baseline for these requirements is the commitment to and the confidence in the Energy Only Market (hereafter: "**EOM**") and the large achievements reached so far in the integration of national EOMs, not least due to the relatively simple structure of EOMs. It must be kept in mind that these achievements should not easily be destroyed by complicating the market into a patchwork of national add-ons. TenneT suggests the following:

1. Strengthen the EOMs by using market-based mechanisms and incentives rather than change it irreversibly. To this extent, market participants should bear the entire cost of fulfilling their individual supply and purchase commitments instead of socializing a large part of ancillary services. This should

also apply to RES which should be marketed entirely on the energy markets and should take part in providing system services, for example balancing markets – as far as technical means allow.

2. Enhancing RES support mechanisms in a way that allows compliance to annual renewable penetration targets, avoiding too slow or too fast RES expansion. Large scale competitive developed RES technologies could be faded out from support mechanisms.
3. Enhanced European coordination to safeguard the national security of supply interests by precisely defined boundaries on market and grid security issues, especially in a RES dominated scenario. Not least this includes an improved incentive system for RES to follow the scheduled planning.
4. Monitoring of the efficiency of the market rules by establishing transparent and robust criteria to evaluate the efficiency of the markets to ensure long-term security of supply and to decide at which point additional political and regulatory interventions are required.
5. Create a temporary “safety net” as a safeguard against market failure. This could be seen as a strategic reserve, however, with cost allocation to users of this safety net instead of socialization. Only in case of a justified doubt in the effectiveness of the EOM under the described conditions, monitored as described under (4), additional regulatory interventions would be justified. If sufficient trust in the market functioning has been restored, additional regulatory measures could gradually be removed.

TenneT believes that the suggested measures will leave the EOM intact and give the right incentives to market participants without irreversibly changing the market by introducing Capacity Remuneration Mechanisms (CRMs).

Together with our outlined proposals TenneT considers it vital to achieve agreement as quickly as possible among all stakeholders on both the "problems to be solved" and the remedies to be taken. Both reaching an agreement and implementing the necessary steps is by itself a process going beyond national borders. ACER could provide a platform that helps in moderating discussions and supports pan-European measures. This may include the definition and introduction of harmonized products in coupling day-ahead and intraday markets, in balancing but also in assigning tasks and responsibilities in a harmonized way to the respective parties.

#### *Consumption and retail markets*

For generation oriented consumption (load follows generation instead of generation following load), smart metering and smart grids may help consumers on market integration, but is limited by customer's acceptance. Besides market driven activities, a central quality assurance for all metered data will become necessary. Therefore also the new dimension of data exchange must be considered within regulatory approved budgets. The market roles and responsibilities, especially in a RES dominated scenario and considering market processes for data exchange, have to be defined precisely to face the increasing need of coordination between all market roles.

### **Infrastructure investments**

To enable market integration, ensure system reliability and integrate RES, TSOs in Europe currently face significant investment requirements. TenneT welcomes the acknowledgement of ACER that national regulatory frameworks and regulators play a key role in facilitating and incentivizing investments in accordance with the prevailing energy policy goals. The ability of national regulatory frameworks to provide adequate remuneration, stable and foreseeable efficiency incentives and address specific financeability needs will be vital. While specific measures for improving the national regulatory systems could thus potentially diverge from country to country, tapping synergy within and across regions emanates from (regional) European cooperation and coordination on economic properties, having a significant influence on network investments, of the regulatory frameworks in place amongst stakeholders like TSOs and regulators.

### **Governance in cross-border cooperation**

Increased cross-border cooperation between TSOs, power exchanges, and other stakeholders has been a major development and success factor over the past years, both for markets and in parallel system operation. This is proven by NWE/SWE single price coupling, regional security cooperations such as TSO Security Cooperation (hereafter: "**TSC**") and CORESO. These are based on electricity target models which are described in various Network Codes, for example CACM, and play an important role in the European market integration. A solid implementation of these electricity target models calls for a clear determination of the roles and responsibilities of and interaction between the various actors, hence for sound governance arrangements.

With regard to system operations, TenneT welcomes ACER's recognition that coordinated and optimised system operations across borders is key to establish an internal energy market. Through regional coordination by sharing data and harmonising processes like security analysis and capacity calculation in a coordinated manner, TSOs are enabled to deal with for example the consequences of RES-induced loop and transit flows in their daily operations. This is regarded as an absolute necessity.

The aspiration of creating a single European Coordination centre would, however, overshoot the mark. In its daily operations The Netherlands has for example nothing to do with the daily operations in Greece. It would therefore be recommendable to stimulate the creation of Regional Security Coordination Centres (hereafter: "**RSCCs**"). Our experience with TSC, CORESO and Security Service Centre demonstrate that enhanced operational security through coordination increases regional system security. All are good examples of regional coordination which are enabled by a RSCC delivering services by providing tools and harmonised processes at synchronous area level to the involved TSOs. TenneT will continue to put effort into optimising these initiatives and contribute to regional coordination and cooperation.

Whilst *inter* regional coordination is of importance, *intra* regional coordination is a prerequisite. Being located on a border of a region one has to deal with the different regions. Therefore cooperation and coordination between the regions should be stimulated. To this extent an independent European body providing a forum for the national regulators of the different regions to align on for example cost recovery caused by redispatch actions is of added value. National regulators should in cooperation with TSOs be enabled to bridge the

national and regional perspectives through a platform to reach mutually the overarching goal of an internal energy market.

Apart from horizontal coordination among TSOs being of importance, it must be borne in mind that the relationship and vertical coordination and cooperation between TSOs and DSOs on a local and regional level should not be lost out of sight. Interaction and a good relationship with the DSOs in the local fields are of importance to secure system security and to enable regional coordination. If too much emphasis is put on solely international TSO cooperation one might lose contact on a local level and will eventually hamper the market process.

On the market side, inter-TSO governance arrangements in a similar setting to that in the operations area exist and need to become 'fit for the future' with a view to ever increasing numbers of TSOs involved. At the same time the governance ruling the relation between TSOs and power exchanges as well as among power exchanges has to be considered. Power exchanges and their cooperation in 'public service functions' play a pivotal role in market integration. At the same time power exchanges are competitors and are arranged differently across the electricity sector. As a consequence of having regulated power exchanges, non-regulated power exchanges and power exchanges partially owned by TSOs the cooperation between TSOs and power exchanges and among power exchanges is highly complex making discussions on for example cost recovery complicated. While full regulatory oversight at this point would overshoot the mark, ACER is best situated to provide regulatory guidance to bridge the complex structure and regulatory gap.

The above mentioned governance arrangements, supported by regulatory bodies, are of high importance to establish the European energy goals solidly. Regulatory oversight is aimed at creating a competitive and free market and tackling competition abuses on an *ex ante* basis. *Ex ante* regulation furthermore brings market participants, including consumers, a form of certainty. In this respect the technical expertise from regulatory authorities is a major benefit.

However, a balance should be struck corresponding to the principle of subsidiarity when it comes to shifting responsibilities to a supranational level. Experience shows that stimulation of regional cooperation and coordination between NRAs, TSOs, DSOs and market parties overcoming differing views is beneficial in the current state of play of the market integration. The core tasks of ACER is to establish more coordination and cooperation in the course of introducing competition in the energy sector thereby establishing efficient interaction between the ENTSOs, TSOs, DSOs, NRAs and other market parties.

### **Conclusion**

TenneT trusts ACER to continue to provide a platform for national regulators to stimulate market parties to bridge national perspectives and stimulate regional coordination to reach the overarching European energy goals.



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