



New Electricity Market Design

Key is to deliver cost-competitive electricity prices

Measures aimed at strengthening short-term electricity markets are welcomed and a necessary step towards a functioning and cost-effective market. Market fragmentation leads to sub-optimal solutions, resulting in higher electricity prices.

In this respect, CEPI welcomes the focus in the legislative proposals on:

- Increasing cross-border trading over short timeframes in both intraday and balancing markets;
- Rewarding flexibility for generation and demand-response;
- Allowing for market-based prices to show real value of electricity (no regulatory intervention fixing price caps or floors): this should provide the appropriate incentive for investments to take place where they would be most cost-effective.
- Capacity mechanisms being used as a last resort only, and should be cost-efficient: they should not result in undue subsidies to electricity generators.

1. Integration of renewable energies in the market

CEPI welcomes the move towards creating a level-playing field among energy sources. RES generators should be required to participate into the markets the same way that all the other generators, meaning being fully responsible for their balancing power and associated cost. Full internalisation of all costs by all the technologies (both conventional and RES) is also a prerequisite for a fully functional market.

Depending on market design, subsidies to electricity produced from renewable energy sources risk distorting market price formation. Electrical generation from biomass should focus on the use of forest residues and forest industry residues to avoid increasing pressure on wood supply for more value-creating end-products.

2. Demand-side flexibility

Our industry has invested heavily in its production units and has customer deliveries to fulfil. Therefore, the decision on possible demand-side flexibility should always remain voluntary.

We welcome legislative provisions to allow industry to participate on an equal footing in accessing the flexibility mechanisms the market provides.

In order to harness the potential from industrial demand response, regulatory barriers for industry to participate with market-based flexibility services should be removed. At the same time, current advantages from on-site generation should be acknowledged and maintained, in order to keep baseload industrial demand off the grid and to save investments in distribution by decentralised production.

Regulation should ensure and facilitate that industry contributes in both demand-response flexibility and on-site generation.

Industrial demand response should also be compatible with energy efficiency targets. A balance needs to be found between demand-side flexibility, delivering system efficiency improvements, and assessment of energy efficiency at installation level, which will be negatively impacted by variation of on-site energy generation levels.

3. High-efficient Combined Heat and Power (CHP)

CHP is a key technology that plays a pivotal role in promoting efficient energy generation and reducing carbon emissions. Moreover, CHP used in the pulp and paper industry is particularly suitable to deliver cost-effective flexibility solutions to integrate electricity from non-programmable renewable energy sources. It is therefore essential that the benefits of CHP are reflected in European and national regulation, and that investments in this technology are preserved and encouraged. In this respect:

1. Curtailment or re-dispatching of electricity from high efficient CHP from industrial processes should be kept to the minimum.
2. For investment security, priority dispatching of electricity from existing high efficient CHP should be ensured also when significant modifications take place, as long as they continue operating as high efficient CHP.
3. Tariffs should avoid directly or indirectly punishing highly-efficient energy generation installations, such as CHP.

It is also worth noting that the Guidelines on State aid for environmental protection and energy 2014-2020 (2014/C 200/01) are negatively impacting self-consumption. This is because section 3.7.2 requires installations to contribute to the funding of support for energy from renewable sources for all electricity consumed, therefore for the electricity self-produced and self-consumed as well. This acts as a disincentive for self-consumption, as it reduces the economic incentive for this type of investments, such as combined heat and power (CHP).

4. Powers delegated to ACER (Agency for the Cooperation of Energy Regulations)

CEPI supports convergence of national regulations, but has serious concerns on strengthening ACER's role, if these questions remain unaddressed:

- How to avoid creating additional regulatory layers?
- How to create more transparency on the way ACER operates?
- How to avoid that "technical" decisions are been politically driven?
- How to ensure that there is a legal basis to challenge ACER decisions?
- How to ensure that energy-users perspective is adequately represented?

Moreover, CEPI is concerned with the delegation of powers to ACER, with no real boundaries or guidelines.