# Summary of the EEX Panel Discussion

## Future challenges for energy markets – Regulation and national energy policy vs. market-based and European approaches

On 5th September 2013, the European Energy Exchange, EEX, hosted a high-level panel discussion at the heart of the financial district of London, to consider several important questions regarding the future of the EU energy markets.

The further development of energy markets in Europe is an issue under intense discussion. On the one hand, policy-makers are developing long-term EU energy policy (up until 2030) whilst on the other hand, individual member states continue to pursue national approaches. This raises questions not only about the interaction of national and European policies, but also regarding the role that market mechanisms will ultimately play. In London, five high-level energy sector experts came together to discuss the most pressing issues in the debate. The topics discussed covered the further integration of renewable energy sources, future market design and the role of the EU Emissions Trading Scheme.

### Panel Discussion Participants

**Peter Reitz**
Chief Executive Officer, European Energy Exchange

**Tadhg O'Briain**
Policy Officer, DG Energy, European Commission

**Paul Dawson**
Head of Regulatory Affairs, RWE Supply and Trading

**Giuseppina Squicciarini**
Head of Electricity Policy, Wholesale Markets, Ofgem

### Chair

**Daniel Wragge**
Head of Political Communications, European Energy Exchange

## Achieving integration of renewable energy sources into the market

Throughout Europe, the share of renewables has rapidly increased in recent years. However, renewables still remain to a large extent, outside the market. Market integration will be necessary – but how can this best be achieved, and what is the future role of renewables in the energy system?

With the recession, the EU has to achieve its renewables objectives against a changed economic background, Tadgh O'Briain commented to commence the discussion. This means that affordability for households and industry is back on the agenda, and the European Commission is moving forward with this in mind. However, what has been 'best practice' in managing the transition to higher renewables contribution up to now may not be 'best practice' in the years ahead. With this in mind, the European Commission will give guidance to member states regarding best practice for supporting renewables. 'Ultimately, we will see more and more pressure coming from consumers and renewable support schemes will have to respond to this 'political pressure'.




Peter Reitz agreed, adding that we have experience in getting to a 20% share of renewables in the power market, which is a success as far as the integration of renewables has progressed up until now. However, 'we have no experience of getting the share up to 60% or 80%. Feed-in tariffs were good at getting the initial costs down – but they may not be suitable for their further development as they do not contribute to price discovery.' He noted that at times, 40% of power production is not really 'in the market', or subject to market forces. Hence, the solution should be to integrate renewables into the price formation mechanism through a system of 'market price plus X'. Further to this, EEX has introduced Guarantees of Origin, which can support renewables, and advance their market integration.

'The EU single power market is becoming a reality and market coupling is coming into force', Paul Dawson noted. He agreed that affordability was back on the agenda, and that concepts such as negative production costs were presenting problems. In contrast to this, Giuseppina Squicciarini commented that the UK's view was that the level of support for renewables and not necessarily its scale, was an important issue to consider. For example, the UK is introducing a form of 'contract for difference' to support renewables.

## Reconciling different renewable energy support systems in Europe

Currently, a variety of support schemes exist in the internal market. With its further integration, how can conflicts between renewable energy support policies be avoided? For Giuseppina Squicciarini, the priority is to seek optimal solutions to conflicting objectives. ‘From a regulatory point of view, we are looking at short-term costs versus long-term benefits, we are looking at trading arrangements and we are looking at improving them in a way which can support renewables.’

Asked if he had a preferred arrangement, Paul Dawson observed that feed-in tariffs have been successful at developing 'new build' renewables. Moving forward, market mechanisms should ensure that any subsidy is directed towards the most efficient technologies. But, he said, subsidisation is a transition process and it is efficient in that respect. However, ‘renewables are not taking responsibility for their own balancing. This is a problem, and they need to be pressurised.’ Who would ultimately impose this pressure? ‘Consumers’, according to Paul.

## Finding the success factors for the further development of the EU energy market design

How can the market design evolve? What choices will determine the success of its development? Tadgh O'Briain responded that the first role of a market is to direct financial resources towards the most viable schemes. The problem lies in the discrepancy between different EU member states' attitudes towards power generation capacity. This problem exists because subsidies often render conventional power generation unfeasible. Hence, the issue is balancing systems which do not function efficiently.

Whether this is a problem depends on where you are in the market, observed Peter Reitz. If we see a shortfall, most people expect that others in the market will help. Security of supply is paramount – but at the EU level, we do not have a capacity problem. Therefore, a capacity market may not be needed. At this point, Peter invited the other panellists to imagine the position we will be in at the end of the road. If we ask ourselves 'what will the market look like at that stage?' we can work backwards in order to identify how to steer investment today.

## Guaranteeing security of supply most efficiently

Several different capacity mechanisms have emerged at a national level. Is this an efficient solution, or are other options available? Can security be guaranteed at the national level in an integrated market?

Germany’s renewable support scheme has a huge impact on other countries, said Peter Reitz. We see that policy effects do not stop at national borders. Market coupling is aimed at this issue anyway, but to integrate properly requires many things, including clearing for example. European Commodity Clearing (ECC) provides clearing to seven exchanges in Europe. Thus allowing and supporting better integration of markets.

For the UK, Ofgem issued its outlook on capacity in July 2013. 'We find that the risk is higher today than it was – we see a capacity market mechanism as an insurance policy', outlined Giuseppina Squicciarini. When asked how this affects cross-border trading, she commented that we should make the most of already-developed national efforts related to management of power capacity.
For Paul Dawson, the ideal situation would be a European approach to guarantee energy when we need it. At the same time, prices should reflect scarcity with balancing arrangements properly defined. This means that any capacity mechanism should follow market signals.
Asked if 'energy only' markets can guarantee security of supply, Paul said this was a question of intervention. 'If we accept intervention layered on intervention, then we create a risk. Intervention prevents markets from functioning to some extent, and we sometimes find ourselves in a situation where Ministers tell us that energy security requires intervention, but then veto intervention which would allow prices to reach levels which reflect scarcity.'

## Using coupled markets for capacity trade

In the Central and Western Europe region, market coupling has significantly contributed to the efficient functioning of energy markets. Can this success set an example for capacity trade as well, and is there willingness for it?

Paul Dawson highlighted the option of a de-centralised capacity trade system similar to that in France. This system obliges providers to demonstrate that they have the capacity already in place, so it is more credit-related in terms of principle. For Paul, this may be a better option than the auction approach currently being considered in the UK.

Giuseppina Squicciarini identified a need for greater coordination. Most importantly, there is a need to build more interconnectors. Additionally, networks have a role to play as well, and we have to ask if TSOs have the right incentives to make developments in this area. This is why the UK recently revised its methods of price controls with some reference to these issues.

Progressing the debate, Tadgh O'Briain observed that in the area of market design, the credibility of any intervention depends on its timing. Intervention need not be necessary, but we can ensure a system whereby capacity is guaranteed to be available. Guaranteeing capacity requires basic principles for the market design - no export restraints, no price caps and no undermining of market coupling. Additionally, demand-side management should be part of the future market design.

Paul Dawson agreed that the demand side is an important part of the equation as a longer-term 'insurance policy'. All kinds of capacity including conventional as well as renewables must have the opportunity to participate in power markets.

## Shaping the future role of the EU ETS

The EU Emissions Trading Scheme is at the centre of intensive discussions about both short- and long-term reforms. Against this background, what are the implications of the low price of EUAs? How can national climate policies be coordinated with EU policy, and will backloading influence the market?

Consultations on the future of the ETS have begun in July, commented Tadgh O'Briain, and work is progressing to address the implications of any change in the structure of the ETS for EU energy and climate change policy. Interactions between climate and energy policy would be considered closely and the question of goals would be crucial. Giuseppina Squicciarini raised the issue of price stability as vital to ensure investment in low-carbon technology. This is why the UK has introduced a carbon price floor to act in favour of the development of such technologies.

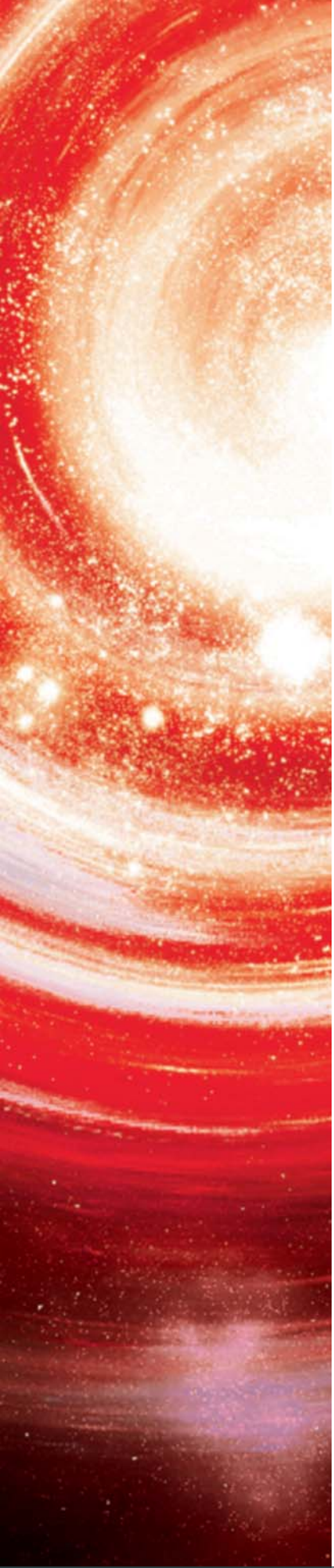
Paul Dawson commented that the ETS had been successful in his view, too. 'It has survived great volatility, has responded to reduced demand in comparison with previous years, and has also coped with challenges to its integrity, such as fraud. We will achieve 2020 targets.' However, Paul noted that having one objective of climate change policy implied the use of one tool or mechanism. 'Intervention has significant limits, and once the market becomes used to intervention, it is difficult to stop.' If we intervened now in response to a low price, what is to stop us intervening on another side at a future date?

## Building credibility through long-term reform

For long-term credibility, Peter Reitz commented that in his opinion the best solutions for the ETS are through the market. 'But we need to learn from the recent volatility. A carbon price floor at a level above the EUA market price is effectively a tax'.

Also, Peter's view was that the ETS has delivered on its objectives, and that we can move forward using this as a foundation. We should now have 2030 targets, and then the investment community's horizon can adapt to ensure the desired technological advances and progression. 'Giving the markets 2030 targets will give back credibility to the ETS. There is price volatility because there is too much regulatory and political uncertainty. We need to remove this uncertainty, and in that way we can reassure the market.' Paul Dawson agreed that the solution lay within the present system, and that it was easier to work within the existing system than to try to utilise a range of solutions within the EU.

Finally, the debate touched on possibilities of a solution for the ETS by 2014. Tadgh O'Briain noted that this is a complex question. Peter Reitz said that he was optimistic, but that the lack of timing was a risk for the market. Overall, the Panel concluded its discussion by expressing a desire to achieve greater stability within the ETS within a broader strategy of long-term targets.



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