

# Internal market for electricity. Recast

2016/0379(COD) - 30/11/2016 - Legislative proposal

**PURPOSE:** to recast the rules on the internal electricity market.

**LEGISLATIVE ACT:** Regulation of the European Parliament and of the Council.

**ROLE OF THE EUROPEAN PARLIAMENT:** the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

**BACKGROUND:** the energy sector plays a key role in the obligation to reduce greenhouse gas emissions in the Union by at least 40% until 2030 with an expected share of 50% of renewables by 2030. The European Parliament adopted [a resolution](#) in September 2016 stressing that a well-functioning integrated energy market is the best tool to guarantee affordable energy prices, secure energy supplies and to allow for the integration and development of larger volumes of electricity produced from renewable sources in a cost efficient manner.

The current electricity market design is based on the rules of the [Third Energy Package](#), adopted in 2009. The latter has brought tangible progress for consumers but new developments have led to fundamental changes in European electricity markets. The share of electricity generated from renewable energy sources (RES-E) has steeply increased, and this shift will continue as it is a key condition to fulfilling the Union's obligations under the Paris Agreement on climate. The physical nature of RES-E more variable, less predictable and decentralised than traditional generation requires an adaptation of market and grid operation rules to the more flexible nature of the market. In parallel, state interventions, often designed in an uncoordinated manner, have led to distortions of the wholesale electricity market, with negative consequences for investments and cross-border trade. Significant changes are also taking place on the technological side. The shortcomings of the current market arrangements also reduce the attractiveness of the energy sector for new investment. At the level of wholesale markets, barriers to cross-border trade persist and interconnector capacities are rarely fully exploited. With regards to retail markets, competition performance could be significantly improved.

The present electricity market design initiative thus aims to adapt the current market rules to new market realities, by allowing electricity to move freely to where it is most needed when it is most needed via undistorted price signals, whilst empowering consumers, reaping maximum benefits for society from cross-border competition and providing the right signals and incentives to drive the necessary investments to decarbonise our energy system. It will also give priority to energy efficiency solutions, and contribute to the goal of becoming a world leader in energy production from renewable energy sources, thus contributing to the Union's target to create jobs, growth and attract investments.

The proposal for a recast of this Regulation on the electricity market, [the proposal](#) on the recast of the Directive on common rules for the internal market in electricity, and [the proposal](#) on the recast of the Regulation establishing a European Agency for the Cooperation of Energy Regulators are part of the Commission's broader package of initiatives ("Clean Energy for All"). That Package comprises the Commission's key proposals to implement the [Energy Union](#).

The proposal is also closely linked to [the proposal](#) for a revised Renewable Energy Directive, providing for a framework to achieve the 2030 renewable target, including principles in relation to support schemes for renewable energy sources.

**IMPACT ASSESSMENT:** this endorsed an enhancement of current market rules in order to create a level-playing field among all generation technologies and resources by removing existing market distortions. It addresses rules that discriminate between resources and which limit or favour the access of certain technologies to the electricity grid. In addition, all market participants would bear financial responsibility for imbalances caused on the grid and all resources would be remunerated in the market on equal terms. Barriers to demand-response would be removed. The chosen option would also strengthen short-term markets by bringing them closer to real-time

**CONTENT :** the draft regulation contains seven Chapters, which may be summarised as follows:

Subject-matter: the proposal aims at:

- setting the basis for an efficient achievement of the objectives of the European Energy Union and in particular the climate and energy framework for 2030 by enabling market signals to be delivered for increased flexibility, decarbonisation and innovation;
- setting fundamental principles for well-functioning, integrated electricity markets, which allow non-discriminatory market access for all resource providers and electricity customers, empower consumers, enable demand response and energy efficiency.

**General rules for the electricity market:** new provisions set out the key principles to be respected by national energy legislation in order to allow for a functioning internal electricity market. The text also sets out the main legal principles for electricity trading rules within different trading timeframes (balancing, intraday, day-ahead and forward markets), including principles for price formation. It clarifies the principle of balancing responsibility and provides for a framework for more market compatible rules for the dispatch and curtailment of generation and demand response.

**Network access and congestion management:** this Chapter describes the process to define bidding zones in a coordinated manner. In order to address the persisting problem of significant national limitations to cross-border electricity flows, the conditions for such exceptional limitations are clarified, notably by rules that shall ensure that electricity imports and exports are not restricted by national actors for economic reasons. The Chapter contains amendments to pre-existing principles for transmission and distribution network tariffs and sets a procedure for fostering the progressive convergence of transmission and distribution tariff methodologies. It also sets out amended rules for the usage of congestion rents.

**Resource adequacy:** this Chapter sets out principles and a procedure for the development of a European resource adequacy assessment to better determine the need for capacity mechanisms and, if appropriate, the setting of a reliability standard by Member States. It clarifies how and under which conditions capacity mechanisms can be introduced in a market-compatible manner. It also clarifies market compatible design principles for capacity mechanisms, including rules for the participation of capacity located in another Member State and for interconnection usage. It sets out how Regional Operational Centres, national TSOs, the ENTSO for electricity and national regulators via ACER will be

involved in the development of technical parameters for the participation of capacities located in another Member State as well as the operational rules for their participation.

Transmission system operation (TSO): the Chapter sets out the tasks and duties of the European network of transmission system operators for electricity (ENTSO) and the monitoring tasks of ACER in this regard whilst clarifying its duty to act independently and for the European good. It defines the mission of Regional Operational Centres and provides for criteria and a procedure for defining system operation regions covered by each Regional Operational Centre and the coordination functions that these centres perform. It also sets out working and organisational arrangements, consultation requirements, procedures for the adoption of decisions and recommendations and their revision, the composition and responsibilities of the management board and liability arrangements of Regional Operational Centres. The Chapter also incorporates rules on the connection of cogeneration units, previously included in Directive 2012/27/EU on energy efficiency. The rules on a ten-year network development plan, inter-transmission system operator compensation, information exchange and certification remain largely unchanged.

Distribution system operation (DSO): the draft regulation sets up a European entity for DSOs, defines a procedure for its establishment and its tasks including with regard to the consultation of stakeholders. It also provides detailed rules on the cooperation between DSOs and TSOs with regard to the planning and operation of their networks.

Network codes and guidelines: the Commission is empowered to adopt delegated acts in the form of network codes or guidelines. The text provides for clarifications as to the legal nature and the adoption of network codes and guidelines and enlarges their possible content to areas such as distribution tariff structures. It also includes the European entity for DSOs and other stakeholders more closely in the procedure on the development of proposals for electricity network codes.

Final provisions: this includes the pre-existing rules for the exemption of new direct current interconnectors from certain requirement of the Electricity Directive and Regulation whilst clarifying the procedure for subsequent amendments made by NRAs. The Annex to the proposed Regulation defines in more detail the functions attributed to the Regional Operational Centers created by the Regulation.

**BUDGETARY IMPLICATIONS:** the budgetary impact associated to the proposal under this package concerns the resources of the [Agency for the Cooperation of Energy Regulators](#) (ACER). Essentially, the new tasks to be carried out by ACER, notably as regards the assessment of system adequacy and the establishment of Regional Operation Centres, require a phasing in of 18 additional full-time staff in the Agency in 2020, as well as corresponding financial resources.