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Making the internal energy market work: More progress needed

Introduction

The American Chamber of Commerce to the European Union (AmCham EU) is pleased to provide its views on the issues raised by the European Commission on the steps needed to complete the Internal Energy Market (IEM). The Commission's Communication is a welcome step in recognising the remaining barriers, the circumstances under which intervention may be required and the more active role that consumers need to play in electricity markets.

Despite progress in liberalisation, there are still outstanding issues that impede progress to a fully integrated market and, in turn, more competitive prices for domestic and industrial customers alike. More progress is needed to ensure properly functioning energy markets, more market integration and to develop common guidelines on more harmonised approaches in support of renewable energy and security of supply.

Market functioning

AmCham EU remains convinced of the need for a coordinated approach to European energy policy rather than fragmented national approaches.

Full integration of Europe's energy networks and markets is essential in making the transition to a low-carbon economy with a diverse mix of energy sources at the lowest possible cost. However, many Member States are intervening in electricity markets in nationally oriented ways that risk reversing progress toward an integrated, well-functioning internal energy market. This is the case across the board – in support for renewables, proposals for capacity mechanisms and retail price regulation.

A well functioning internal energy market would deliver low cost energy from a diverse mix of energy sources, drive innovation and promote energy efficiency. Properly functioning energy markets will include efficient balancing mechanisms and ancillary services and steer investments to where they are most needed.

Cheaper energy from a liberalised and more efficient EU energy market will be critical to underpinning the competitiveness of European industry.

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Low carbon energy

The Commission's view is that all forms of support mechanisms designed to reduce the carbon intensity of the energy mix need to be reviewed regularly, particularly where markets and technology costs have evolved.

As low carbon technologies tend to have greater construction and performance risks than 'conventional' alternatives, financial support mechanisms (in the form of feed-in tariffs or fixed price premiums) will continue to provide a vital element of electricity market design, underpinned by a market value for carbon that provides certainty for investors.

At the same time, the overall cost of renewable energy source (RES) support schemes must be maintained at a level that does not jeopardise industrial competitiveness. It is clear that there is no harmonised approach on how to do this, which has resulted in a myriad of different support mechanisms. It is therefore important that the Commission takes this opportunity to ensure that the complexity of these market arrangements is kept to a minimum.

Security of supply and capacity

The current consultation on capacity adequacy and capacity mechanisms is a welcome step in recognising the link between supply and demand and the growing role that flexible generation and demand-side management will play in the future.

Rewarding flexibility of production and demand response, rather than capacity, will be vital to finance the new services that are required of the energy system.

One alternative to capacity markets is to specify capability and the flexible characteristics needed. Then it would be up to the market to find ways of combining renewables with conventional energy sources and wider demand response solutions. This would establish system-wide values for capacity and flexibility services and avoid creating incentives for inefficient alternatives.

Capacity mechanisms can only provide a solution to these challenges after wider efforts to promote transparent and fully integrated wholesale and balancing markets have been maximised, as poorly designed policy in this area risks being counterproductive and counter EU decarbonisation and Single Market objectives.

Better infrastructure that supports the application of smarter grids and increased demand response

With the growing need for flexibility and energy efficiency, and to accommodate distributed generation and demand-side participation, coordinated action is needed to deploy smart grids, meters and wider infrastructure.

AmCham EU recommends a swift adoption of the energy infrastructure package, as well as an ambitious level of financial commitments for infrastructure in the 2014-2020 MFF. The continuous renewal of the European energy infrastructure is at the foundation of functioning electricity and gas markets. It allows for the use of innovative technologies like smart grids and smart metering - a precondition for using renewable energies and more decentralised energy production. In order to attract the investments needed for energy infrastructure, we need properly functioning markets, access to finance and a stable regulatory and fiscal environment.

There is untapped potential for consumer use of new technologies such as smart meters, which can enable micro-generation and improve energy efficiency, as well as allow electricity consumption in real time in response to market price fluctuations.

The Commission must promote common standards and R&D to facilitate deployment. In the short term this should support the spread of demonstration funding to promote deployment. In the long-term, the Commission should move beyond 'proof of concept' projects and encourage network operators to build plans for smart grid into their annual investment programmes.

Conclusion

Based on our review of the Internal Energy Market Communication, more progress is needed to leverage the benefits of an integrated energy market.

We propose the following key elements in support of the proposals.

- Properly functioning, more liquid and transparent energy markets (wholesale, balancing and ancillary services) accompanied by more market integration;
- A common approach and guidelines for market intervention in support of renewables and security of supply;
- Rewarding flexibility of production and demand response, instead of simply capacity; and
- Support for better infrastructure that supports the application of smarter grids.

These elements will be vital to ensuring lower energy costs for domestic and industrial customers and to underpin the EU economic growth.

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AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate U.S. investment in Europe totaled €1.7 trillion in 2010 and directly supports more than 4.2 million jobs in Europe.

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