



# Energy Policy Recommendations for the 2017 German Federal Elections

*The European Energy Exchange (EEX) is the leading energy trading platform in Europe. We stand for central and liquid trading platforms with strong price signals. We promote the market integration of renewable energy sources and, as a result, we make a contribution to the success of the energy transition. In addition to this, by organising energy markets across national borders, we make a decisive contribution to the integration of the European internal energy market.*

## **1. The fundamental decision for the power market 2.0 is the right one and must be maintained**

With the Electricity Market Act, Germany has taken the fundamental decision for markets and competition. The power market is prepared for the future (“power market 2.0”) by strengthening the price signal as the central control parameter. In the short term, the price signal ensures the flexibilisation required to synchronise generation and consumption. In the long term, it sends out the right signals for efficient investments in flexible generation and consumption. In addition to the right decisions on the form of the market design, the stability of the framework conditions, in particular, is decisive for investments and, as a result, for the safeguarding of the security of supply. This is all the more important since, at a European level, proposals by the EU Commission regarding the market design are being discussed in the so-called “winter package”.

A free and carefully supervised market with a wide range of competitors is the driving force for innovation. As a result, new and creative solutions can be found to meet the challenges of the energy transition. This creates new business models – as well as new jobs, which concurrently also support the further development of renewable energy sources and climate protection.

## **2. Germany does not need any additional capacity mechanism for conventional power plants**

A functioning power market 2.0 based on competition, price signals and European integration forms the most efficient solution in order to safeguard the security of supply. A separate capacity remuneration mechanism is not required. The price signals and trading products within the market ensure that sufficient flexible capacity is available in the long term – with regards to both generation and consumption.

For a transitional period, the introduced capacity reserve (“belt and braces”) is acceptable. Strict attention has to be paid to ensure that this does not result in any negative effects on the free wholesale market and that the reserve is only used on a short term basis and the need for it to exist is checked regularly.

### **3. The energy market develops the right solutions for the energy transition on its own**

The success of the liberalisation of the energy market is reflected in the maturity of the markets, with high liquidity and meaningful price signals, and in the number and professionalism of the market players. The functioning energy market constitutes the basis for the fundamental decision regarding the power market 2.0. This shows that the political sector trusts the market and the market justifies this trust and fulfils its responsibility. As a result, the way to the power market of the future (with numerous measures initiated by the market itself) has already been prepared.

Based on liquid trading, the power market is developing solutions in standardised products in order to, e.g., allocate a market-based price to flexibility and safeguard investments and create incentives for new investments. As a result, EEX has already established a new generation of trading products with various so-called “energy transition products” and launched these on the market. This market-driven process is to be supported by stable, legal framework conditions.

### **4. Renewable energy sources must be integrated into the market more strongly**

With mandatory direct marketing (2014 EEG amendment) and the introduction of tenders (2016 EEG amendment), the integration of renewable energy sources is on the right track. The experience gathered so far with the tenders for the competitive determination of the amount of funding for renewable energies clearly shows the potential of the market: viable competition and declining costs.

However, what matters now is that renewable energy sources are more strongly integrated into the market by further developing the support system. Renewable energy sources have to establish a position on the market just like any other player in order to cover their costs and, in addition, to generate profits. We recommend defining the specific amount of funding in advance and switching from a sliding market premium as the difference from the market price to a fixed premium. Moreover, in future, the installed capacity in kilowatts is to be subsidised instead of the generated energy in kilowatt hours. This creates a strong incentive to primarily use the market situation as an orientation instead of relying on subsidisation alone.

In this context, we of course, have to assist renewable energy sources and support them because the growing share of renewables is resulting in new risks in the market – which have to be dealt with. To this end, we have developed new trading products on the exchange – so-called energy transition products – which will help the renewables, but also all other trading participants in managing these risks: e.g. price and volume risks in the event of deviations from weather forecasts and, as a result, the changed energy yield of wind power or photovoltaic systems.

## **5. The integration of renewable energy sources requires a large and liquid power market**

One challenge of the energy transition is that the market is becoming increasingly fragmented as a result of the decentralised feed-in of electricity from renewable energy sources. At the same time, the energy market, as a result of cross-border energy flows, is becoming an internal European market. This is not a contradiction and not an “either-or” but a “both, and”: Power and energy systems are on a large scale and decentralised markets need central structures in order to balance supply and demand at all times, to integrate renewable energy sources and to ensure the continuity of supply.

For this reason, we also consider the current debate regarding the reconfiguration of price zones – and, in particular, the split of the German-Austrian price zone – as being ill-founded. It would be a fatal step with far-reaching negative consequences. Therefore, everything needs to be done to prevent such a split. After all, this would jeopardise liquidity on the market and the effect of the market price signal. The German-Austrian market area is the most liquid market in Europe and, as an “electrical lead currency“, the power price developed and indicated there, also has the function of being a reference price for Europe as a whole.

In the long term, the aim must be to design market areas which are as extensive as possible in order to permit the large-scale balancing of generation and consumption and, therefore, the integration of large volumes of renewable energy sources. As a result, we can get closer to the long-term aim of having an integrated European internal market and, as the core zone in Europe, Germany and Austria are of particular importance in this.

## **6. Grid expansion is an indispensable precondition for the energy transition**

The attainment of the aims of the energy transition requires the construction of new electricity lines. Sufficient transmission grids in particular, enable cross-border power trading within the integrated European internal market. While the exchange balances supply and demand on the basis of market prices, the physical delivery of power requires adequate grids and transmission capacity in order to, e.g., transport electricity from renewable energy sources from the generation regions in the north of Germany to the main consumption centres in the south.

Grid expansion in Germany has already made good progress. However, this is not yet sufficient; there are delays in many projects – in particular in the approval procedures. Therefore, the practice of the approval procedures is to be reviewed in order to ensure fast and legally secure approvals.

## **7. The potential for cross-border cooperation within the European internal market is to be used**

The power market is to be developed further from a European perspective. The fact is that the power market is largely integrated in Europe and that the advantages of cross-border trading must be included in energy policy considerations. An integrated market offers advantages regarding both the security of supply and the integration of renewable energy sources because it permits extensive balancing of generation and consumption.

Intensifying cross-border collaboration for grid expansion and congestion management in grid operations is of decisive importance for the further development of the European internal market. This also includes the cross-border distribution of the corresponding costs.

## **8. Levies, charges and fees must be rearranged so that the price signal can have the best possible effect and is received by all consumers**

The fee and levy system has to be revised fundamentally – in particular, in the field of the grid charges. Adequate rules have to be made for the inclusion of self-consumption and renewable energy sources, as well as new market roles (e.g. aggregators) and grid users – e.g. in the field of e-mobility. There are new requirements regarding the “user-pays” principle and distribution effects, which will be reinforced as a result of the progress in sector coupling.

Therefore, strengthening the wholesale market price signal is important. To this end, the price signal must largely be independent of external influencing factors, such as levies, fees and taxes. Only in this way, can the price signal display its full effect and be received by the final consumer.

In this context in particular, dynamic price elements such as e.g. a dynamic EEG levy, have to be examined carefully. There is the risk of a distortion of the price signal if players are given an incentive to optimise with regard to other parameters than the power price. Furthermore, this would cause a burden on those final consumers that would not be able to adjust their consumption behaviour – this would be a violation of the user-pays principle.

## **9. Emissions trading as the central climate protection tool must be strengthened; however, additional national measures do more harm than good**

The European emissions trading scheme (ETS) is the suitable tool for the attainment of the European and national climate protection targets. Emissions trading works: It continuously provides price signals and ensures an efficient fulfilment of all CO<sub>2</sub> savings targets set by policy.

In order to reach the targets of the Paris climate agreement, more ambitious greenhouse gas emission reduction targets and the inclusion of further sectors are required. CO<sub>2</sub> pricing using an emissions trading system is the most efficient measure for the attainment of these targets.

Supplementary national measures must be dispensed with since they lead to higher macro-economic costs, while any actual additional positive effects on the climate cannot be expected. On the contrary: Fragmentation in climate policy would have negative impacts on other sectors. For example, a fragmentation of the European energy market and competition distortions would have to be expected in emission-intensive industries.

The key to avoiding distortions of competition at a global level and supporting the attainment of the climate protection targets established in Paris, is by supporting CO<sub>2</sub> pricing worldwide and a potential future linking of the EU ETS with other systems, e.g. China.

## **10. Supporting digitalisation as a driving force for a market-based energy transition**

The energy transition has to be digitised in order to use, as yet unused flexibilisation potential with decentralised and relatively small power consumers and generators. In addition to technical pre-conditions, such as smart meters, the price signals of the market must actually be received by all – and in particular small – market players and final consumers. To this end, the burden on power prices imposed by fees, levies and charges must be modernised and, furthermore, corresponding variable tariffs must be made available.

Creating a “regulatory sandbox” or so-called experimentation clauses might help to create the free spaces required in order to try out new business models. These could be checked for their suitability for implementation over a limited time horizon in a less narrow regulatory framework. Permitting non-discriminatory access to energy industry data should be part of the public infrastructure, in order to give the biggest possible number of players room for innovation and the development of new business models.