

MITECO consultation document on Energy Storage Strategy



EFET response – 09 November 2020

The European Federation of Energy Traders (EFET)¹ welcomes the opportunity to provide comments to the consultation document on Energy Storage Strategy. We appreciated MITECO's detailed document and we would like to restate our core principles which were highlighted in our previous consultation².

On the one hand, the question of electricity storage is gaining greater importance as a result of technological improvements combined with changing patterns in the production and consumption of electricity. We have seen the regulatory debate start at national level in many European countries, as well as at Union level.

On the other hand, it is increasingly accepted that decarbonisation by 2050 will be impossible without molecules. Not all industrial use of energy can be electrified, there are not yet efficient mechanisms for direct storage of electricity over weeks, months and seasons in the volumes that will be necessary, and the intermittency of electricity supply at higher levels of penetration of renewable generation are all challenges that the gas system is well-placed to help address. However, we agree that gas must decarbonise in order to contribute.

EFET strongly supports MITECO's focus on technological neutrality, emphasising the importance of a level playing field for the different technologies and ensuring equal rights and obligations for any type of technology. This can be achieved by way of establishing a framework which recognises the environmental benefit of a wide range of available technologies and rewards carbon abatement and any other system need in a market-based, technology neutral way.

We believe "winning" technologies should not be sought through administrative means, but rather through competitive market-based mechanisms and efficient markets. In this respect, we consider that the strategy should identify and remove the limits to efficient price formation in the power markets which limit the necessary price signals to incentivise investment into storage.

In "*Annex B – Participación Pública*", we noted the concern expressed by some participants on cost recovery in the cases when storage cannot recover investment by itself. We believe that any support schemes for technologies facilitating decarbonisation and energy system integration, if required, must be strictly market based, technology neutral, non-distortive, tradable and open across EU borders, harmonised as early as possible and aligned with the EU ETS.

Therefore, acknowledging the pan-EU framework, we encourage MITECO to seek further interaction and coordination between the gas and electricity TSOs and other Member States in Europe.

² [EFET response to MITECO consultation on storage strategy](#) (19 June 2020)

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

Please find below our detailed comments on the different measures of the strategy.

1. Regulatory framework

Measure 1.1. Consistent definition of storage in the national legal framework

Measure 1.2. Define the role of the operators of storage facilities and services that the different agents may provide

The principles we would like MITECO to keep in mind if and when formalising the legal and regulatory framework around storage³ are as follows:

- Removing market failures that are preventing efficient price formation in the balancing and spot markets.
- Not picking winners - battery storage is just one form of flexible capacity among many others;
- All flexible capacities (batteries, other forms of storage, generation of all types and demand response) should compete on a level-playing field in the market and for ancillary services – same rights, same opportunities;
- Guaranteeing the unbundling requirements set in European legislation: TSOs and DSOs should not be allowed to own and/or operate storage assets, in the same manner as they are not allowed to own and/or operate power plants or portfolios of clients engaged in demand response;
- When needed, TSOs should procure flexibility services based on neutrally formulated needs in order to allow market participants to respond to these needs with the most economically efficient technology (including, possibly, battery storage).

Measure 1.3. Define flexibility services at the distribution network level

Understanding “flexibility” is of utmost importance. At EFET, we define flexibility as the ability to use capacity with minimal or no limitations – thus flexibility is a characteristic of capacity: capacity (in the form of electricity generation, demand, or storage assets) is “flexible” only to the extent that constraints upon the use of that capacity at any level, at any time and for any duration, according to need or a bid, are limited.

It thus follows:

- Flexibility is not a standard product as such.
- There is no such animal as a “flexibility market”: the electricity markets⁴ are the places

³ See [EFET position paper on the ownership and operation of storage assets](#) (13 September 2019) and also [EFET response to ENAGAS consultation on Winter Plan 2020-2021](#) (29 May 2020)

⁴ “Markets for electricity, including over-the-counter markets and electricity exchanges, markets for the trading of energy, capacity, balancing and ancillary services in all timeframes, including forward, day-ahead and intraday markets”, Directive 2019/944 on common rules for the internal market for electricity

where “flexible capacity” can create value, not only from delivering efficient market allocation in the day ahead market, but also from the ancillary service markets (balancing, reserve, etc.). Accordingly, it cannot be the role of TSOs/ DSOs to provide “flexibility”.

The income from the energy market in all its timeframes can provide a signal to the value of this investments if this will entail a reform of the Spanish spot and balancing markets to allow the free fluctuation of the price on the interaction of supply and demand, which will reflect the value to be extracted over volatile periods hence providing an investment signal.

We see that the current operation of wholesale power markets in Europe (e.g. Great Britain) does afford opportunities for market participants with access to flexible capacity:

Energy products, which signal certain flexible characteristics of capacity, are already traded on the wholesale market (base vs. peak forwards and futures, options, profiles...). Excessive interventions may reduce the ability of existing standard base and peak load profiles to adequately attribute value to flexibility.

- New products with smaller granularity and closer to real time will help provide price signals for more flexible capacity when the market signals this need (e.g. 15 min settlement periods, shorter-term products, but also shorter duration/delivery forwards/futures).
- Policy makers should continue to focus on improving the efficiency of the markets (incl. removing administrative restrictions to price formation, enlargement of markets (including more efficient design of bidding zones), flexible access to interconnections in intraday, open balancing markets), so that market participants are exposed to the correct price signals and can make correct decisions.
- A level playing field is of utmost importance, i.e. equal rights and obligations for any type of technology. In other words, there should not be markets by technology but by products, in which different players can compete on the same level playing field.

As a natural consequence of the principles we highlighted above, we consider that electricity storage has the potential to respond to the flexibility needs of the market and the system, alongside electricity generation and demand response. Each of the different technologies and assets have different characteristics and complement each other. Battery storage is an efficient tool to respond to very short-term, fast ramping needs of the market or the system.

However, it is not the best tool to respond to long periods of activation. Hence battery storage should only be considered as one of the answers to the flexibility needs of the market and the system and be treated on an equal footing to electricity generation and demand response.

Measure 1.4. Modify the Operating Procedures to incorporate the participation of the storage

No comments.

Measure 1.5. Simplification of procedures and reduction of administrative burden

EFET supports any effort in simplifying the procedures and reducing the administrative burden for market participants. In particular, as highlighted in our EFET response to ACER

consultation on barriers to efficient price formation and easy participation in European electricity markets⁴, the following barriers were identified for the Spanish market:

- Complex and time-consuming administrative reporting and permitting procedures
- Lack of transparency and availability of relevant information to entry and participate in all market timeframes (e.g. language barriers on NRAs/TSOs public webpage)
- Restrictions to exit in electricity markets for specific market players or assets

Measure 1.6. Eliminate the double burden of network fees

Measure 1.7. Include storage in transportation network planning

Measure 1.8. Development of hybrid facilities with storage

Measure 1.9. Regulatory sandboxes for storage systems

No comments.

2. Participation in the markets

Measure 2.1. Participation of storage in complementary services and electricity markets

EFET favours the participation of storage in the whole spectrum of the electricity markets, as listed in the consultation document (“Daily Markets, Intraday Sessions, Continuous Intraday Market, and eventually, in local markets, as well as in the different ancillary services such as secondary, tertiary regulation and management of deviations”).

Measure 2.2. Capacity mechanisms

We would like to remind of our fundamental position⁵ that establishing or maintaining a CRM should not come at the detriment of the design and efficiency of energy markets. CRM mechanism must be designed according to the provisions established in the Regulation (EU) 2019/943, otherwise there will be no level playing field between market participants.

This principle, now enshrined in Article 20(3) of Regulation 2019/943, aims at ensuring that energy markets allow for optimal dispatch and contribute to security of supply. On the other hand, CRMs complement energy markets, whenever the market is not fully able to provide long-term signals and adequate conditions to either attract necessary investment or to maintain power plants that would otherwise be mothballed or decommissioned.

Both the dimensioning of CRMs and cross-border contributions to these CRMs should take account of the design of energy markets in the relevant bidding zones. Where CRMs are

⁴ See [EFET response on ACER consultation on barriers to efficient price formation and easy participation in European electricity markets](#) (23 October 2020)

⁵ See [EFET response to MITECO consultation on implementation of capacity mechanisms in the Spanish electricity system](#) (25 September 2020)

established or maintained, the implementation of Regulation 2019/943 should ensure compatibility of the different schemes and, where relevant and feasible, harmonisation.

Measure 2.3. Participation in balance services

No comments.

Measure 2.4. Encourage dynamic electricity prices and grid rates based on your use time

We consider not appropriate to impose measures for suppliers to implement dynamic prices. Suppliers already offer a portfolio of attractive products that are accepted in the market in order suit to all types of customers (both those who have the possibility of actively managing their demand and those who do not). Any measure that conditions the freedom of suppliers to build their products would be an obstacle to competitive activity that would harm consumers, as it reduces the incentive for companies to become more efficient.

In addition to their negative impact on retail markets, regulated prices also distort the functioning of the wholesale markets, limiting and partly undermining the price formation process: limited competition between retail suppliers also decreases demand liquidity in the wholesale market. Given that the EU's internal energy market is interconnected and interdependent, regulated prices in one Member State also have an impact on price formation in other Member States.

If suppliers do not make a special effort to offer specific products that transfer hourly price signals to domestic customers, it is a consequence of unfair competition from the regulated tariff rather than not being attractive. In fact, the Precio voluntario para el pequeño Consumidor (PVPC), is partially subsidized, as it does not cover the commercial costs of the regulated suppliers (comercializadoras de ultimo recurso), and which are already lower than those of a "free supplier" that must compete to attract customers.

In this regard, the only appropriate measure would be to proceed with the total liberalization of supply and to limit the application of the PVPC exclusively to vulnerable consumers entitled to the social bonus. Furthermore, a structure of network tariffs and charges that improves price signals for self-consumption, storage and demand response will push the market to offer products that allow customers to take advantage of this.

As far as grid rates are concerned, they can be tools to incentivize implicit flexibility, even though they may be sometimes override by wholesale market price signals in the opposite direction). As any other tool to incentivize flexibility, new grid tariffs structures should also be assessed with cost benefit analysis and properly tested, as options allowing for investment deferral.

Measure 2.5. Local markets

EFET highlights that any new proposal for a local market, should first make sure to provide a link between local products/markets and the wholesale market to ensure that the price signal is sufficiently strong and minimise the risk of excessive market power. Appropriate measures must be taken to avoid market power abuse and gaming risk and localised congestion

management should in any case not lead to the fragmentation of current balancing and/or prompt markets⁶.

Measure 2.6. Investment signals for storage systems

No comments.

3. Business model

Measure 3.1. Promote the figure of the independent aggregator

We fully support the involvement of new market participants such as active consumers and independent aggregators in the wholesale electricity market. In our view, the EU internal energy market legislation, particularly with the completion of the Clean Energy Package, provides a comprehensive framework, laying down the key principles for their successful development and effective market engagement. The framework requires non-discriminatory access, level playing field and transparency for all market participants in all market segments, and the development of effective price signals, which is essential for building a robust business case and developing new business models and services.

Measure 3.2. Strengthen and promote the national storage industry for use in all possible applications

Measure 3.3. Promotion of national self-sufficiency of raw materials or basic components

Measure 3.4. Promote the second-life battery business model

Measure 3.5. Promote the development of national standards for storage

Measure 3.6. Cybersecurity in storage systems

Measure 3.7. Ensure the interoperability of flexible resources and access to the information

Measure 3.8. Encourage and support participation in international industry forums national

No comments.

Measure 3.9. Harnessing the potential of storage in smart storage management Energy

Measure 3.10. The potential of the electric vehicle as an element of flexibility

Measure 3.11. Take advantage of the "Renovation Wave" so that storage is present in the building sector

Measure 3.12. Encourage the use of self-consumption storage

No comments.

⁶ See [EFET response to public consultation on the model of operation of local electricity markets and on the IREMEL Project](#) (17 May 2019)

4. Sector integration

Measure 4.1. Promote renewable or green hydrogen

Measure 4.2. Public initiative to create a green cluster for technological development and industrial storage in Spain

Measure 4.3. The potential of Power-to-X development

Measure 4.4. Leverage leadership in thermal storage

In general terms, the proposed European Commission strategy on energy system integration aims at strengthening links between electricity and gas systems and end-use sectors across the EU economy. The objectives of the strategy reflect the interest of EFET in potential decarbonisation of the gas sector by harnessing market mechanisms and closer coupling of the gas and power markets at wholesale level⁷.

As far as hydrogen is concerned, we would like to stress on the main points that we believe were not sufficiently addressed in the “Hoja de Ruta del Hidrógeno”⁸:

- Building upon the EU ETS in the short term, as it currently applies to power generation and heavy industries, then expanding it to become a long-term driver for decarbonisation across the national economy
- As there will be limited utilisation of market-based mechanism in the first (2020-2024) and second phase (2025-2030) of the Spanish hydrogen strategy, we insist on the utilization of market-based mechanisms and adapting market instruments whenever financial support for new, low carbon energy sources is considered, while respecting sectoral unbundling rules
- Ensuring pan-European coordination and cross-border implementation of any financial support schemes for renewable, decarbonised and low-carbon gases, especially in case national end-use prohibitions of hydrocarbons should be foreseen
- As the current focus is on green hydrogen only, we insist on technological neutrality of measures, to include a level playing field between power and gas systems, so that users face a cost-reflective allocation of costs, without cross-subsidisation and removing the existing bias against electricity.

5. Citizens at the centre

Measure 5.1. Renewable energy communities

Measure 5.2. Adaptation of training and study plans

Measure 5.3. Qualification and certification of installers in the residential sector

⁷ See [EFET recommendations for a future EU strategy on energy system integration](#) (26 May 2020)

⁸ See [EFET response to MITECO consultation on Spanish renewable hydrogen strategy](#) (11 September 2020) and also [EFET comments on the Roadmap for an EU Hydrogen Strategy](#)

Measure 5.4. Dissemination, improvement of knowledge and awareness

Measure 5.5. Promote sectoral participation forums

Measure 5.6. Promote access to data by citizens

Measure 5.7. Promote storage projects in Just Transition areas

Measure 5.8 Promote R & D & i initiatives in Just Transition areas through CIUDEN

Measure 5.9 Synergies between the electrical infrastructures of the Just Transition zones and the lines of action of the Strategy

No comments.

6. The levers of technological development

Measure 6.1. Promote the creation of platforms for experimental laboratories and research that takes advantage of synergies

Measure 6.2. Improved technology transfer

Measure 6.3 Quadruple Helix Initiatives

Measure 6.4. Take advantage of European and national initiatives that work as a lever to promote innovative projects

Measure 6.5. Promote the raising of European funds for Innovation

Measure 6.6. Support measures for the development of pilot projects

Measure 6.7. Intensify R&D in long-term storage

Measure 6.8. Strengthen research on behind-the-counter technologies and their impact on the system

Measure 6.9. Advanced Battery Research

Measure 6.10. Promote R + D + i in all technologies

Measure 6.11. Support for R + D + i of renewable hydrogen technologies on the value chain

No comments.

7. Sustainability

Measure 7.1. Traceability of origin of suppliers and end of life of waste

Measure 7.2. Improve waste management of spent batteries

Measure 7.3. Circular Economy Strategy

Measure 7.4. Promote business models oriented to the recovery of waste from storage technologies

Measure 7.5. Critical materials

No comments.

8. Needs in island and isolated systems

Measure 8.1. Generate incentive mechanisms for the deployment of storage in insular and isolated systems

Measure 8.2. R&D&I in isolated areas with low interconnection

Measure 8.3. Use storage as a source of technological and industrial development

No comments.

9. Governance

Measure 9.1. Participation of regional and local entities

Measure 9.2. Monitoring of the development of the Energy Storage Strategy

Measure 9.3. Update of the Energy Storage Strategy

Measure 9.4. Data monitoring and management system by the Administration

No comments.

10. Prospective analysis

Measure 10.1. Define storage needs

Measure 10.2. Evaluate the cost benefit of storage

As anticipated in the introduction, we believe the Spanish strategy should focus in defining system needs, without picking specific technologies, and in the case of an adequacy need, be based on what is established in the Clean Energy Package. A market adequacy assessment would be an excellent starting point to identify market failures, which in the Spanish case would be:

- Distorting subsidies
- Administrative payments to selected technologies and markets where price fluctuations may be restricted (e.g. price caps and floors).

Measure 10.3. Life cycle analysis: Environmental and social impact of massive storage

No comments.