

## **CRE consultation on specifications regarding the management of RES production under purchase obligation and the methodology for the calculation of the avoided cost**



EFET response – 24 September 201A

### **Preliminary statement**

The European Federation of Energy Traders (EFET)<sup>1</sup> welcomes the consultation paper of CRE on specifications regarding the management of RES production under purchase obligation and the methodology for the calculation of the avoided cost.

In particular, EFET appreciates the aspiration of CRE to move towards an integrated market-oriented model for supporting low carbon generation and the intention to learn from the experience of the early implementation phase of the 20-20- 20 strategy. We believe that the approach to decarbonisation and renewable energy support in France like in the rest of Europe needs to be fundamentally re-designed in order to provide an efficient and consistent Europe-wide market-based framework.

#### *RES-E and the wholesale electricity market*

As highlighted in earlier contributions at French and European levels, EFET believes that a number of lessons can be drawn from the experience of the implementation of RES-E support schemes and the distortions that FIT-supported renewable energies caused to the wholesale electricity market and from the lukewarm success of the EU Emissions Trading System (ETS).

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<sup>1</sup> EFET promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: [www.efet.org](http://www.efet.org).

In the absence of any significant low-carbon investment signals since 2010 through the EU Emissions Trading System (ETS), implementation has in reality largely relied on uncoordinated national schemes to support renewable generation. The operation of those schemes has had a number of negative effects on other policy objectives, especially the completion of the single electricity market in a cost-efficient way. Some of the negative side effects include:

- An **erosion of the energy and carbon market prices** caused by the current policy architecture, leading to unnecessary costs for the energy transition (non market-based support schemes) and negative effects on competitiveness and investments,
- **Insufficient market design to tackle the challenges of optimal dispatch of generation plants with high level of volatile RES injections** with the risk of missed opportunities for RES-E producers to help manage flexibility requirements,
- Decreasing liquidity of wholesale electricity markets through the exclusion of RES-E output from normal contracting processes in many countries,
- High costs to consumers and distortion of the retail market through allocation of costs only to 'non-privileged customers', e.g. the additional cost to these consumers in Germany has risen above EUR 50/MWh in 2013 (EUR 60/MWh in 2014),
- **Unpredictable physical network flows** leading to restrictions in the availability of cross-border transmission capacity, distortions in cross-border trade and restriction of cross-border competition due to insufficient contribution of RES-E generators to the planning of network operations, insufficient information exchange between RES-E generators, DSOs and TSOs, and between TSOs themselves, as well as insufficient procedures for coordinated cross-border congestion management (redispatch).

In our view, the 2020 framework agreed at European level and implemented in France in the Energy Code is, therefore, not a sustainable approach for the medium to long term.

Well-functioning energy markets have the capacity to provide clear wholesale price signals, which allows for optimising supply and demand and enhances security of supply. It is our strong belief that market fundamentals should continue to form the backbone of the French energy policy and that the regulatory framework should be designed with a view to ensuring the functioning of the internal energy market. This will provide for a cost-efficient realisation of the EU climate objectives, improve the security of energy supply and offer an efficient model for others to follow.

*Priority dispatch, priority access and balancing responsibility*

In order for the energy market to contribute to a least-cost solution for RES-E deployment, it is crucial that that all generation (RES and non-RES) is competing on a level-playing field. This entails, for example, equal treatment in grid access and grid charging.

Priority dispatch of renewable production, often combined with fixed feed-in tariffs, means that RES-E producers always produce to the highest possible capacity with a right to full remuneration, even when the produced power is not needed due to low demand and overcapacity of other renewable sources (leading to negative prices). Therefore, priority dispatch does not incentivise RES-E producers to moderate their own output efficiently. This leads conventional generation operators to perform multiple stop-start operations which, in addition to being unnecessary costly, makes the overall environmental benefit in terms of GHG suspicious. Besides, such operations may unnecessarily lead to costly negative prices (in Germany for instance, but also in France since the summer of 2013), which further erode the overall market income, leading to further intervention. Alternatively, such operations are often carried out at the direction of the system operator without proper remuneration.

Although RES-E producers are currently assured of either priority or guaranteed access and priority dispatch according to the Renewables Directive, this should not prevent the provision of market-based or TSO-designed **incentives to RES-E producers to moderate their own output in response to negative price signals, nor to better contribute to the management of network congestion and system imbalances.**

For affordable RES-E production to cover a major share of electricity generation, **it is essential that there is harmonisation of access and dispatch rules based on the market integration of renewable electricity and on the principle of self-dispatch.** Any reform in France should clarify this in more detail and should be consistent with European market design whereby generators of all types contribute actively to the stability of the system and must be exposed to the functioning of the internal market, i.e. in forward markets, coupled day-ahead markets, intraday cross-border trading and the provision of ancillary services. Likewise, the future subsidy regimes should rather be based on incentives that do not distort dispatch decisions and do not involve the TSO in buying and selling electricity, which is contrary to the unbundling requirements in the Electricity Directive.

### **Consultation questions**

**Question 1: Would the creation of a dedicated balancing perimeter for RES facilities under purchase obligation meet the objective of clarifying the cost of the unpredictability of RES production under OA? Do you believe that the publication of detailed production forecasts by production type would be useful?**

**Question 2: Do you have any comments on the proposed terms for the consideration of RES facilities benefiting from the purchase obligation, including existing facilities?**

EFET welcomes CRE's initiative to launch a reflection on the design of operational RES-E support in France, and we understand the legal and contractual constraints within which the tentative redesign has been proposed. While the creation of a separate balancing perimeter for RES volumes under purchase obligation ("obligation d'achat", OA) could be seen as a first step towards the integration of RES-E into the wholesale market, maintaining this separate balancing perimeter under the sole responsibility of EDF as the

reference balancing service provider (BSP) for renewable energy would defeat the purpose of the overall reform.

Maintaining a single balancing perimeter would not make available all the data needed to ensure a transparent process. The cost of imbalances depends on the technology and on the geographical area where the energy is produced (depending on congestions, hydro/solar/wind conditions, etc.).

A more fundamental redesign is therefore needed to ensure overall system cost reduction and introduce upstream competition: in the future, e.g. as of 2015, new RES-producers should be allowed to freely contract with any BSP their portfolio optimisation, hedging of energy output, balancing services (RE), market access, etc.

In exchange, these new RES-E producers should also be made responsible for their production forecasts. RTE as the national TSO is the best-placed entity to pool this information at a national level, based on data fed by RES-E producers. The information, per RES-E type, and for the production forecasted and realised, should be made available in a transparent and accessible manner to all market participants, according to the EC Transparency Regulation.

For existing RES-E contracts, EFET believes that a migration towards a separate balancing perimeter, subject to clear transparency guidelines and a public tendering for the management thereof, would be a welcome improvement.

**Question 3: Do you believe that the proposed terms are sufficient to guarantee the quality of production forecasts for facilities under OA?**

As mentioned above, new RES-E producers should face the cost of their imbalances in the future. EFET believes that it would naturally incentivise these RES-E producers to develop and improve their own forecasts, and to better manage their individual imbalances to reduce imbalance costs.

While RES-E producers remain the main balance responsible party, the computation and provision of forecast in their name could be outsourced to third parties.

Regarding the management of the balancing portfolio of existing RES-E contracts, CRE and RTE should further reflect on which indicators would be best suited to check the accuracy of the forecast models of the managing entity.

**Question 4: Do you have any comments on the CRE proposal for the creation of a dedicated balancing perimeter for RES facilities under OA in the methodology for the calculation of the avoided cost?**

EFET agrees with the CRE proposal for the creation of a dedicated balancing perimeter for existing RES facilities under OA in the methodology for the calculation of the avoided

cost. Any future RES-E producers, however, should become responsible for their imbalances on their own behalf.

**Question 5: Do you have any comments on the integration of RES facilities with a purchase agreement with a local DSO into the dedicated balancing perimeter for RES facilities under OA and on the consideration of their imbalance costs in the calculation of overheads borne by EDF?**

N/A, see above.

**Question 6: Do you have any comments on the specifications for the marketing of RES electricity under OA? Which of the three marketing options under consideration for almost-certain RES-E volumes seems preferable? What type of marketing option for the re-forecasted RES-E volumes under OA in the intraday timeframe seems preferable? What would be the impact of these developments on the activity of wholesale markets?**

As mentioned above, the most efficient design to ensure fair competition and overall system costs reduction is to open the complete service to the market. New RES-producers should be allowed to freely contract with any BSP their portfolio optimisation, hedging of energy output, certificates, balancing services (RE), market access, etc., for all timeframes

For existing contracts, the marketing of the volumes through the separate balancing perimeter should be done according to the following principles.

Regarding forward allocation:

- We believe that the timing for the publication of almost-certain volumes of RES-E production under OA is satisfactory
- Regarding the marketing process, the direct marketing of the almost-certain RES-E volumes under OA on the forward market would have the advantage of bringing liquidity to the market, and would pool liquidity on the organised market. It would also avoid setting up additional contracts and IT systems dedicated to the management of these volumes.

The marketing of the volumes should follow a rate that reflects the actual market depth and its ability to absorb these volumes. They should not cause too large price fluctuations, both upwards or downwards.

Regarding marketing on the day-ahead spot market, the CRE proposal seems appropriate and the good liquidity of the day-ahead market should avoid any dominant position of EDF.

Regarding the inclusion of re-forecasted RES-E volumes under OA in the intraday timeframe, we understand that the marketing obligation to sell the forecasted could face liquidity and time constraints. However, since these volumes would add to the

overall liquidity of the intraday market, we would ask that some measure of marketing obligation for these volumes be maintained in the intraday timeframe.

Provided that this activity is correctly managed and monitored, the impact of the marketing of RES-E volumes under OA on the wholesale market would be positive. These evolutions would bring some liquidity linked to RES power generation to the wholesale market, to the benefit of all stakeholders. This should also improve transparency in the market and overall improve price signals for RES-E and conventional power generators.

**Question 7: Do you have any comments on EDF Trading managing the marketing of RES-E volumes under OA?**

In order to ensure transparency, non-discrimination and full competition in the market, we believe that market access services, including those for the existing contracts, should be open to any BSP. Market access service providers should be allowed to compete on a level playing field (in terms of market access, available information and transparency).

**Question 8: Are the proposed terms sufficient to ensure transparency of the service?**

Whichever BSPs provide market access services, additional data needs to be made available to market participants according to the EC Transparency Regulation. The information communicated to service providers should be publicly available.

**Question 9: Do you have any comments on the proposed modification of the methodology for the calculation of the avoided cost for wind energy?**

We support more granularity in the avoided cost calculation methodology for wind energy in order to better reflect the reality of costs incurred by wind energy producers, as well as the inclusion of the volume-weighted spot prices to compensate for the intermittency of wind production. This approach towards more precision in the methodology for the calculation of the avoided cost further allows for a better transition towards full market integration through direct.