

## Florence Forum – March 2016

### Conclusions

#### **The Commissioner**

1. The Forum was pleased to welcome Commissioner Arias Cañete to the 30th Electricity Regulatory Forum in Florence, who laid out the building blocks of the Commission's new energy market design initiative.

#### **Upgrading the Market**

##### *Balancing*

2. The Forum stresses the importance of balancing markets for a well-integrated and functioning EU internal energy market. It encourages the Commission to swiftly bring the draft Balancing Guideline to Member States for discussion, ideally before the summer, with a view to reaching agreement in autumn this year. It considers, however, that there may still be improvements needed and asks the Commission to consider the provisions of the draft Guideline carefully before presenting a formal proposal.
3. The Forum supports the view that further steps are needed beyond agreement and implementation of the Balancing Guideline. In particular, further efforts should be made on coordinated sizing and cross-border sharing of reserve capacity. It invites the Commission to develop proposals as part of the energy market design initiative, if the impact assessment demonstrates a positive cost-benefit, which also ensures the effectiveness of intraday markets.

##### *Intraday and Day Ahead*

4. The Forum acknowledges the significant progress being made on the integration of cross-border markets in the intraday and day-ahead timeframes, and considers that market coupling should be the foundation for such markets. Nevertheless, the Forum recognises that barriers may continue to exist to the creation of prices that reflect scarcity and invites the Commission, as part of the energy market design initiative, to identify measures needed to overcome such barriers. In doing so, it requests the Commission take proper account of technical constraints that may exist.
5. The Forum acknowledges that, whilst cross-border day-ahead and intraday markets will see significant harmonisation as part of the implementation of the Capacity Allocation and Congestion Management (CACM) Regulation, there is significant scope for ensuring that national markets are appropriately designed to accommodate increasing proportions of variable generation. In particular, the Forum invites the Commission to identify those aspects of national intraday markets that would benefit from consistency across the EU, for example on within-zone gate closure time and products that should be offered to the market. It also requests for action to increase transparency in the calculation of cross-zonal capacity, with a

view to maximising use of existing capacity and avoiding undue limitation and curtailment of cross-border capacity for the purposes of solving internal congestions.

6. The Forum stresses that, whilst scarcity pricing in short-term markets is critical to creating the right signals, the importance of hedging opportunities and forward/future markets in creating more certainty for investors and alleviating risks for consumers must not be overlooked. Further, it considers that the Commission must recognise the risks of State interventions undermining scarcity pricing signals.

### **TSO Coordination**

7. The Forum stresses the importance of closer regional TSO cooperation for market integration and secure system operation. The Forum recommends as an immediate step a swift adoption and implementation of the System Operation Guideline. In parallel, the Forum also urges the Commission to develop an ambitious proposal in the context of the market design initiative regarding the future evolution of regional TSO cooperation, enlarging the scope of functions and optimising the geographical coverage of regional centres. It recognises, however, that there remains diverging opinion as regards the delineation of responsibilities between them and national TSOs and that further consideration is needed before final decisions are made. Enhanced cooperation between TSOs should be accompanied by an increased level of cooperation between regulators and governments.

### **System Adequacy**

8. Whilst recognising that regional and national specificities exist, and that Member States may determine different levels of security of supply, the Forum reiterates its support to the Commission's work on providing a European framework for State interventions in system adequacy. This should include a common approach, developed by ENTSO-E, to assessing adequacy, ensuring stakeholder involvement and regulatory oversight and taking into account the situation of the market. The Forum also underlines the need to address the potential of the demand-side in providing security of supply.
9. Given the feasibility and benefits of sharing resources across borders, the Forum stresses the importance of establishing a European framework for capacity mechanisms, notably for effective cross-border participation. It also calls on the Commission to make sure that such mechanisms are a last resort only and do not undermine the internal market.

### **Risk Preparedness**

10. The Forum recognises the need for more co-ordination across Member States and clearer rules on coping with electricity crisis situations. It encourages the Commission to quickly bring the draft Emergency and Restoration Network Code forward for discussion with the Member States. It also welcomes the Commission's work on a new proposal on risk

preparedness in the electricity sector and considers that risk preparedness plans and common framework for how to deal with critical situations should be its key building blocks. It stresses the need that all action on risk preparedness should respect the principle that the market should act first.

### **Implementation of Internal Energy Market Rules**

11. The Forum encourages regulators, TSOs, NEMOs and other stakeholders in all Member States to work proactively on the implementation of the CACM Regulation, as the Regulation is a key building block for an integrated power market. It urges notably all parties to engage early on in discussions with partners from neighbouring countries on those terms and conditions and methodologies which need to be agreed jointly. It stresses the need for a pragmatic and compromise-oriented approach on all terms and conditions and methodologies which require regional agreement in order to avoid unnecessary delays in the implementation process.
  
12. The Forum calls for speedy progress on the implementation of the XBID project and for swift agreement on the arrangements for accession to the project with those Member States who are not yet part of it. It welcomes the start of a common work stream that involves future participants in the process, and encourages XBID project to continue the close cooperation with future participants, with a view to creating a fair and transparent accession process. It takes note of the Commission's confirmation that it supports the chosen approach and considers it legally compliant with the terms of the CACM Regulation.