

ACER proposes a strategy for tackling the upcoming challenges of the single EU Energy Market

Brussels, 29 April, 2014

The Agency for the Cooperation of Energy Regulators (ACER) has presented today in Brussels its strategic document *Energy Regulation: a Bridge to 2025*, which identifies the main challenges that the EU energy market integration process will face over the next ten years, such as the integration of renewables and the need for an improved governance structure able to facilitate decision making at EU level. The document proposes that enhancements in the design of electricity and gas markets may be required for delivering tangible benefits to consumers, such as the capacity for EU citizens to change energy supplier within 24 hours. ACER also opens today a public consultation on this document for stakeholders to contribute by 16 June 2014¹.

The “Bridge to 2025” identifies the challenges Europe’s energy markets will face in the coming decade, including aspects covered by the Council of European Energy Regulators (CEER), and seeks stakeholders’ reactions on expected developments in the gas and electricity sectors, on the increasing importance of infrastructure, on trends in retail markets and on a suite of proposed regulatory actions to ensure that energy markets operate to the benefit on European consumers.

During the presentation, the Director of ACER, Alberto Pototschnig said: “Following the 2014 Internal Energy Market goal, we are looking ahead at the challenges facing the energy sector in the next years. Our aim is to respond to these challenges by developing a robust regulatory strategy which can deliver well-functioning wholesale and retail energy markets across the Union”.

Lord Mogg, the Chairman of ACER’s Board of Regulators and CEER President, also underlined that “Europe’s Energy Regulators have set out their strategic thinking to ensure that markets really are fit for purpose in 2025. Our key conclusions are that, in addition to the rapid implementation of the present Target Models, we need more flexible capacity to accommodate the high levels of intermittent renewables generation; strengthened cooperation by network operators and 24-hour switching”.

Delivering flexibility

Renewables growth is driving changes. As the penetration of renewables-based electricity generation grows, so too does the need for additional flexible response from both the supply and demand side². Market arrangements also need to be enhanced to ensure gas markets meet the needs of the electricity market, particularly for greater flexible response.

In addition, uncertainty about the future size of Europe’s gas market raises the need to ensure that the liquidity of gas markets is maintained and enhanced. ACER’s current work on the Gas Target Model will consider how to address this challenge³.

Reviewing governance arrangements

The EU network codes will encourage further market integration across borders. But, greater market integration will require greater cooperation between TSOs and other key players. The governance of the European energy sector needs to be enhanced to ensure efficient and effective decision making, especially at Union-wide level. Therefore ACER supports a review of the way in which the European Network Transmission System Operators (ENTSOs) operate, and improved regulatory oversight of power exchanges⁴.

ACER's role and powers should be also reviewed to ensure they are adequate for the efficient delivery of its tasks⁵.

24-hour switching

Removing barriers in Europe's retail markets and empowering consumers will be vital. Demand response, including from smaller consumers, is close to becoming a reality, and an extremely valuable resource for the European electricity system. Regulators will develop a framework to facilitate the development of this market⁶. We see a core role for Distribution System Operators (DSO) as neutral market facilitators and will consider the degree of unbundling. A clear objective should be set now for consumers to be able to switch⁷ suppliers within 24 hours.

ENDS

Notes for Editors

- (1) This consultation paper has been issued by ACER with the support of CEER and outlines European regulators' common thinking on the challenges and possible responses for the period 2014-2025. It draws upon the responses received to the ACER pre-consultation launched in November 2013 and seeks to involve all stakeholders in the continuing development of ACER Policy Bridge. Feedback is invited by 16 June 2014. The final proposals will be finalised by the end of September 2014. [Access ACER consultation page here.](#)
- (2) National and European electricity policies have fostered the rapid growth of non-programmable renewable energy (NP RES) generation capacity, especially wind and photovoltaic, connected to both transmission and distribution networks. There are important characteristics associated with these technologies: their output is less predictable and often less flexible than conventional generation and prone to rapid changes in output. Such characteristics can directly affect the operational security of electricity networks, for example by the increased complexity of forecasting, the difficulty in maintaining frequency and voltage level, and the requirement for increased fast reaction balancing services to accommodate rapid changes in NP RES output.
- (3) A range of potential measures exist to meet this challenge and they include: minimising the barriers to the consolidation of gas hubs; developing capacity products that provide financial certainty for accessing neighbouring trading hubs which have functioning forward markets; and enabling hybrid merged gas trading zones, where the geographic area in which balancing occurs is different from the virtual trading hub which may be much larger.

- (4) ENTSO-E and ENTSOG will play a greater role in coordinating national TSOs' actions during the implementation of the network codes and in defining the detailed rules and procedures for the operation of European energy systems. As a consequence, the ENTSOs' governance arrangements will be reviewed by ACER to ensure that the EU-dimension of their responsibilities prevails over the specific interests of their individual members.
- (5) The integration of energy markets extends beyond the EU's borders and the ACER Regulation sets the conditions for the participation of Third Countries in ACER. However, the way in which these conditions can be met and the type of participation they trigger needs to be carefully considered. The European Commission is invited to provide guidance in this respect.
- (6) DSOs will increasingly need to be proactive in the development of a more active, smarter demand side and smart grids.
- (7) By 2025, the supplier switching period should fall from its present maximum of three weeks to within 24 hours. There should be no difference in timeframes between electricity and gas, in order to facilitate dual fuel switches. This builds on the CEER-BEUC 2020 Vision principles of Reliability, Affordability, Simplicity, Protection and Empowerment presented in November 2012 to ensure that customers remain at the heart of the energy market and the central concern of regulators.

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