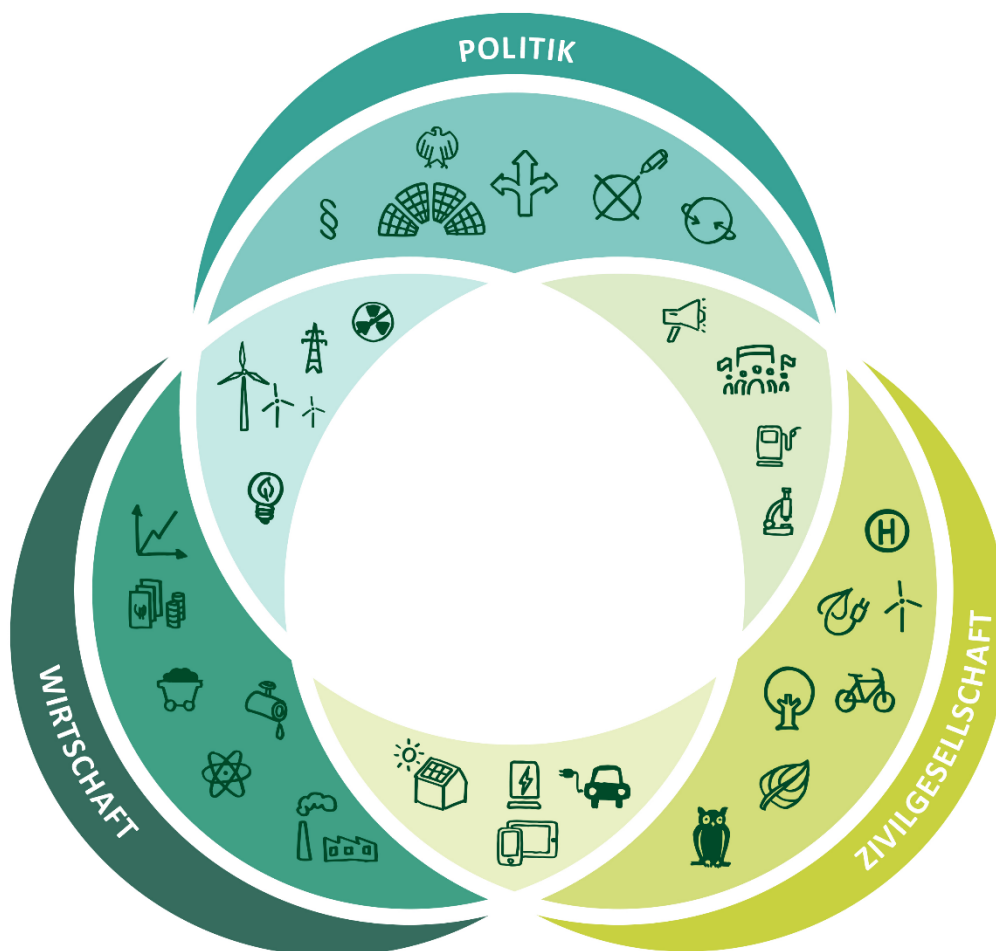


White Paper: Electricity market 2.0

What further steps are useful to enrich the electricity market with
measures of European co-operation?

Prof. Dr. Gesine Schwan und Katja Treichel



Executive summary of the Dialog on July 13, 2015

What is a Trialog?

The Trialogs of the HUMBOLDT-VIADRINA Governance Platform are one-day events with about 50 stakeholders from the public sector, the business sector and organized civil society, as well as academia and media. The Trialogs facilitate a thorough dialogue between these stakeholders on current political issues, conflicts and controversies in the search for broad-based solutions oriented towards the common good. The composition of participants is important for the success of our Trialogs: a broad spectrum of multiple, often controversial societal positions and ideas is a pre-condition for the deliberation. Each Trialog opens with input presentations by representatives of the different stakeholder groups, who share their position and insights to the topic of discussion. By the application of the Chatham House Rule and a fair moderation we enable an open and trustful atmosphere for deliberation that integrates a diversity of perspectives and links arguments reasonably. Through methodological analysis of the discussion after the event, we identify most important and intersecting arguments and disclose consensuses that can form the basis for further political actions. The Trialogs outline options and possible decision scenarios but usually do not give direct recommendations for action.

Topic and Background of the Trialog

The Trialog *“White Paper: Electricity market 2.0 – What further steps are useful to enrich the electricity market with measures of European co-operation?”* focused on questions of European cooperation that had been raised at the Trialog *“Green paper electricity market design – from national climate goals to sustainable European energy generation”* in December 2014. The White Paper Trialog elaborated these questions and additionally dealt with issues of the White Paper *“An electricity market for Germany’s energy transition”* which was published by the German Federal Ministry of Economic Affairs and Energy in July 2015. Both Trialogs were embedded into the consultation process on the future electricity market design and have been financially supported by the Ministry.

In cooperation with the Ministry some guiding questions were compiled to be discussed in the White Paper Trialog:

- What influence do measures and activities proposed in the White Paper have on the European electricity markets? Have other countries taken similar steps? What are the results so far? How do these measures affect each other?
- How to improve the monitoring of supply security by involving more data from the European level?
- What options and obstacles are to be expected of more flexible European electricity markets?
- What effects can smaller harmonization measures have on the general willingness for intensified energy market integration in the framework of the Energy Union?

- Which additional measures would improve the co-ordination of neighboring countries' activities regarding the electricity market designs?

Participants

A total of 53 participants from the public sector, the business sector, organized civil society, academia and media took part in the Trialog. Stakeholders from seven European countries participated. The largest share of participants came from the business sector, amongst them were: the European Energy Exchange EEX, the energy providers E.ON and Vattenfall, the Polish transmission system operator PTPIREE and associations such as the German Association of Energy and Water Industries BDEW.

Stakeholders from the political sector came from the Ministry of Economic Affairs and Energy (BMWi), the Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB), the Swiss Federal Electricity Commission ElCom as well as embassies.

The organized civil society was represented by unions such as the Mining, Chemical and Energy Industrial Union (IB BCE) as well as environmental organizations and NGO's such as E3G – Third Generation Environmentalism and the Renewables Grid Initiative. Participants from academia (e.g. German Institute for International and Security Studies (SWP); Energy Research Centre of the Netherlands) and media (blog.stromhaltig.de, the magazine "Neue Energie" of the German Wind Energy Association) accompanied the discussions.

Results

The participants generally appreciated the suggestions made in the White Paper, especially the decision to refrain from introducing a capacity market. Nevertheless they requested further improvements such as reductions of subsidies or a stronger consideration of decentralized solutions in the energy supply system.

The participants expressed openness to further integrating of European electricity markets but stressed that mutual trust and solidarity are necessary pre-conditions. Technical solutions alone are not sufficient for realizing the integration of the electricity markets. During the discussion several examples for a possible deeper integration were collected. Many participants suggested the opening of balancing markets for neighboring countries would be a step forward. On a more general level, it has been demanded to develop a true European vision of a common energy market and ways to implement it. This would make it easier to design national and regional initiatives in such a way that they are compatible to the European level also in the medium and long term.

One main question of the Trialog dealt with the implications of national decisions on neighboring electricity markets. Firstly, it has been underlined that the electricity markets are, in fact, still in the process of integration. However, they are already closely interlinked, which is why national decisions often influence the electricity markets of neighboring countries. Loop flows via the

Czech Republic and Poland were stated as a noticeable example of it. These loops flows are caused by the high share of wind power in the north of Germany and insufficient transmission grids within Germany to transport that electricity to the south.

Concerning the monitoring of supply security the participants confirmed that current processes are no longer suitable. However, the first regional generation adequacy assessment study of the Pentalateral Energy Forum and the study of Consentec/R2B already provide approaches for modernizing the monitoring of supply security.

Another question dealt with the possibilities and challenges of creating a more flexible European electricity market. The participants highlighted that transnational capacities are cheaper options of flexibilisation than mere individual solutions. However, for using transnational capacities effectively and efficiently, network codes have to be further harmonized and interconnectors expanded. Furthermore, it was suggested to design prices in a way that they stronger reflect market signals. But due to different national taxes and charges, this is only possible to limited extend on the European level.

Finally, it was discussed what influence smaller, common regulation measures may have on the overall willingness for a deeper European cooperation. It can be assumed that positive effects of these cooperation measures help to create trust. As an example the CWE market coupling was mentioned that amongst others has reduced price volatility. A big part of the discussion centered on the question on how to improve the coordination of energy-related activities of the European countries. Whereas some spoke in favor of voluntary regional agreements - such as the declaration of 12 electrical neighbors, others prefer a stronger central European regulation to overcome fragmentation tendencies due to path dependencies and diminish fragmentation pressure.

Open Questions and Suggestions

The debates at the Trialog also revealed that quite a lot of open issues remain. These range from fundamental questions such as “How much Europe do we want?” and which topics should not be dealt with on a European level, to rather technical questions such as what effects can be expected from national capacity markets and the ETS-reform. It was also asked how changes on the electricity market design influence social and industry policy.

Although the majority of participants welcomed the White Paper and had a profound knowledge of their own national electricity market, an intensified exchange of information and stronger cooperation in Europe on various levels of the energy sector seems necessary to make the energy transition a truly European project.

About us

The HUMBOLDT-VIADRINA Governance Platform is a not-for-profit limited liability company that aims to contribute to democratic processes as well as elaborate governance strategies in

Germany, Europe and in the world. Our contribution to Good Governance focuses on the basic principles of transparency and participation. With our multi-stakeholder initiatives and Trialogs we develop procedures that aim to integrate multiple perspectives and to make them transparent. We believe that only through transparency and participation it is possible to involve all stakeholder groups and thereby, strengthen the trust in political decision-making processes.