

**35th EU Electricity Regulatory Forum (Florence Forum)
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Green Deal discussions – Christian Zinglensen, ACER Director**

The challenge: Keep focus on implementation of the Clean Energy Package. It is far from “done”. Constitutes the foundation upon which future efforts (“new ambition”) will stand. Risk of attention going elsewhere.

- Many upcoming efforts, targeting “the next stage” of decarbonisation are likely to rely on – or even “stand on” - well-functioning, highly integrated power markets in Europe.
- My first message here is to not fall for the temptation to “*tick the box*” on electricity market integration. It is not done yet! Can sometimes be tempting to move on as attention shifts elsewhere to new and important challenges.
- And indeed, yes, significant progress has been made to date in electricity market integration. And this with very significant economic benefits for Europe. However, significant challenges still remain: Important for example to address delays in market coupling (further integration of market timeframes) and to further increase the utilization of interconnectors (per the 70% target). Part of this year’s Market Monitoring Report and a “special edition report” on the 70% target before the end of the year, the latter assessing significant room for improvement for most regions and borders.¹
- Addressing these challenges will be key for several other political objectives, not least ambitious decarbonisation objectives at lower cost. And it will be a key foundation on which other efforts – increased electrification, further sector coupling etc. – are likely to stand.

The EU model is increasingly one of interdependence, increased mutual reliance. What flows from “we are in this together” is increasing – and perhaps becoming more contentious.

- Resource adequacy is a case in point: Hugely significant development with the Clean Energy Package. Here, we as ACER, in close collaboration with ENTSO-E, took the first steps this year in developing and adopting methodologies underpinning future European-wide resource adequacy assessments, informing the assessment done nationally.
- It is a complex area. And potentially contentious in the sense that it poses limits on discretion and manoeuvrability in light of measures undertaken in neighbouring Member States. This links e.g. to having appropriate pricing in place and to perceived needs for capacity remuneration mechanisms.
- There are many reasons for such adequacy assessments to draw on cross-border perspectives and significant efficiencies to be gained. The implications of this approach are significant, too – it implies energy policy is becoming increasingly shared or coordinated amongst countries, and less strictly national. Debates at the national level do not always seem to factor this in; something to be mindful of to avoid the risk of increased disconnect.

¹ ACER’s report is due on 18 December 2020 with a follow-up open webinar scheduled for 21 January 2021.

Next phases of power generation brings up new issues. And they will further underline the role of infrastructure in addition to fit-for-purpose markets. Here, more work needs to be done.

- To take a topical example per the recent EC strategy: The offshore wind ambitions of many Member States and the EU as a whole. Vast multi-jurisdictional projects up ahead. A semi-industrial revolution judged by the scale of investment sometimes cited. Gives rise to new issues – bidding zone configuration, approach to congestion income, perhaps System Operators' governance framework down the line, etc.
- It also puts into focus the role of infrastructure. Several challenges here. First, delay in building of related transmission infrastructure vis-à-vis construction time for generation. Needs acceleration. Possibly also new ways of thinking about trade-offs and incentives, too.
- Second, just like vast multi-jurisdictional offshore sites are likely not to be built solely for “national self-sufficiency” but rather to meet ever greater power demand needs across Europe, so the corresponding transmission build-out needs to be seen in a similar context. Brings up issues of cost distribution where, hitherto, notwithstanding the CBCA principle (*cross-border cost allocation*), costs have mostly followed a territorial principle. Maybe it's time to revisit this per a likely increase in transmission projects built primarily for crossing Member States to reach demand centres (inspiration perhaps to be drawn from recent projects on the gas side; the Poland-Lithuanian interconnector, to name one).
- Alongside the increased role of infrastructure, hybrid solutions integrating e.g. storage and Power-to-X will also have a role to play. This once again points to the need for fit-for-purpose market design providing the right price signals enabling such solutions.

To close with a perspective on risk: What might be genuinely at stake, what might shake the foundations of the trajectory we are on?

- Good to keep focus on “the big picture”. One aspect here is of course to make sure the energy transition trajectories up ahead are cost-efficiently tackled and thus remain affordable – and that they are seen as such by most parts of the population. Otherwise, the efforts are less likely to be sustainable longer-term.
- Another aspect is to look at possible one-off high-risk events. I see two such main risks up ahead to the “further integration of markets route”: First, a significant electricity black-out impacting vast parts of Europe, thus reflecting e.g. inaccurate resource adequacy assessments across Member States. This could well risk jeopardising the commitment to our shared resources / mutual reliance model in Europe. Underlines the need for robust and detailed adequacy assessment at the European level, informing national assessments.
- The second is a substantial, high-visibility “ENRON moment” where market manipulation is pursued at scale, thus impacting trust in the integrity of energy markets.
- This last point I think is worth underlining. Whilst market functioning and market integration is one side of the “mutual reliance coin”, the other side is market surveillance countering possible market manipulation. This is in many ways “the political corollary” to continued reliance on integrated European energy markets to deliver Green Deal related objectives at lower cost.
- As such, we need to further reinforce this in the years ahead, us at ACER working with NRAs, within the REMIT framework.