

Public consultation on a new energy market design

Fields marked with * are mandatory.

Information about you

* Are you responding to this questionnaire on behalf of/as:

- Individual
- Organisation
- Company
- Public Authority
- Other

* Name of the company/organisation

European Aluminium

* Please describe briefly the activities of your company/organisation and the interests you represent

European Aluminium is the association representing the whole value chain of the aluminium industry in Europe. We actively engage with decision-makers and the wider stakeholder community to promote the outstanding properties of aluminium, secure growth and optimise the contribution our metal can make to meeting Europe's sustainability challenges. Through environmental and technical expertise, economic and statistical analysis, scientific research, education and sharing of best practices, public affairs and communication activities, European Aluminium promotes the use of aluminium as a permanent material that is part of the solution to achieving sustainable goals.

* Which countries are you most active in?

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| <input checked="" type="checkbox"/> Austria | <input checked="" type="checkbox"/> Belgium |
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Please specify

EFTA Countries.

Are you registered with the EC transparency register?

- Yes
 No

My number is

9224280267-20

* Can we publish your answers on the Commission website?

- YES - under my name (I consent to all of my answers/personal data being published
 under my name and I declare that none of the information I have provided is subject to
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copyright restrictions).
- NO - please keep my answers confidential (my answers/personal data will not be
published, but will be used internally within the Commission)

Short-term markets

- * (1) Would prices which reflect actual scarcity (in terms of time and location) be an important ingredient to the future market design? Would this also include the need for prices to reflect scarcity of available transmission capacity?

Yes, European Aluminium supports market-based solutions, where market prices as much as possible reflect scarcity, which provide signals for short term demand optimization, and investment signals to ensure system adequacy.

- * (2) Which challenges and opportunities could arise from prices which reflect actual scarcity? How can the challenges be addressed? Could these prices make capacity mechanisms redundant?

Scarcity prices will lead to increased market price volatility, making flexibility more interesting for generators and consumers.

Any capacity payment scheme must be last resort. Only when capacity supports investments system needs should be remunerated, and with minimum distortion on ordinary electricity market functioning.

- * (3) Progress in aligning the fragmented balancing markets remains slow; should the EU try to accelerate the process, if need be through legal measures?

Efficient balancing markets are vital for the electricity system. The EU should take all necessary measures in order to ensure balancing market integration as soon as possible.

Harmonised methodology to set how much capacity reserve the power system adequacy requires should benefit from existence of integrated balancing markets plus regional responsibility for system security.

- * (4) What can be done to provide for the smooth implementation of the agreed EU-wide intraday platform?

We have no particular views on this question.

Long-term markets to enable investment

- * (5) Are long-term contracts between generators and consumers required to provide investment certainty for new generation capacity? What barriers, if any, prevent such long-term hedging products from emerging? Is there any role for the public sector in enabling markets for long term contracts?

Long term contracts (LTC) are required as they provide predictability of electricity price levels to the consumer and to power generators:

- A primary aluminium smelter is a major customer to the generator. With its single point of delivery, a very high installed capacity, the smelter runs 24 hours a day and 365 days per year. It absorbs a high share of power production units, reducing significantly the generator's exposure to fluctuating consumption on the long run. LTCs also provide predictable income to the generator, with some guarantees.
- While aluminium is an electro-intensive industry, it is also a critical enabler for GHG emissions target reduction (low carbon footprint, high recyclability rates and unique material performance for buildings, automotive and aerospace sectors).
- Power represents 30% to 50% of the overall operation costs of

an aluminium smelter. Long-term contracts and predictable electricity prices are therefore critical factors for today's aluminium competitiveness. They are the main localisation and investment factor. In our business model, the level of investment is directly linked to the duration and predictability of the power contract. Significant investments are amortized over the long run, typically between 15 and 25 years, just like in the energy sector.

In the current context, some barriers do exist to the conclusion of long term contracts:

- The electricity wholesale market is too shallow to provide the long term price signal, on the time horizon necessary for these investments to occur and for the volume of electricity at stake for each aluminium producer.
- Power price forecasts are highly influenced by CO2 price assumptions and other electricity regulated costs such as renewables support schemes and electricity-related taxes. Uncertainty regarding fragmented and ineffective carbon compensation schemes and other regulatory costs (i.e. levels of payments for grid costs, renewables fees and other taxes) are major barriers in the discussion of long term contracts between smelters and power generators.

Therefore, to ensure the viability and allow major investments in our industry, the public sector has a role to enable long term contracts:

- The energy market design reform should envisage the possibility to promote voluntary long-term electricity contracts at a competitive price as they make good business sense for the generator and the consumer and facilitate the conditions to promote this practice.
- Furthermore, for this specific segment, the public sector should provide predictability beyond 15 to 20 years on support mechanisms that enable electro-intensive industry to be shed from undue costs on CO2 and renewables. The rule of a minimum participation for these industries (usually in the area of 20%), leaving significant exposure to external risks, should be eliminated.
- This reform should also take into account that liquid financial forward markets will improve confidence among market participants, and support mid-term contract negotiations (5 to 10 years).
- Principle of freedom to negotiate voluntary long-term contracts in any EU wholesale market and alternative pricing based formulas should be encouraged at EU level.
- Optimal use of transmission network is vital. TSOs should not be encouraged to sell long term transmission rights, and in any case industry consumers must not bear the risk of TSOs' potential loss from selling Transmission rights.

- * (6) To what extent do you think that the divergence of taxes and charges[1] levied on electricity in different Member States creates distortions in terms of directing investments efficiently or hamper the free flow of energy?

[1] These may be part of general taxation (VAT, excise duties) or specific levies to support targeted energy and/or climate policies.

Europe needs to ensure predictable and competitive regulatory costs to compete internationally and invest in further development of their production plants.

Unfortunately, a less liquid market can contribute to further investment leakage of our sector. A package of measures are needed to address the cumulative cost impact of policies such as carbon pricing, taxes (including support of RES) and levies for energy intensive and trade exposed industries.

Renewable generation

* (7) What needs to be done to allow investment in renewables to be increasingly driven by market signals?

Following the recent and substantial increase of RES into the EU electricity grid, we support the European Commission and Member States intention to find cost-effective ways to continue this progression without distorting the level playing field and the competitiveness of the electricity markets.

Today, mature RES producers should be incentivized to integrate their electricity efficiently in the market. They can compete in electricity markets (day ahead, intraday, balancing, etcetera) and could be incentivized to respond to market signals at the same level as other technologies, and be responsible for their own balancing costs, as other market participants.

Renewable energy support must not increase electricity cost for European industry exposed to global competition, neither the increased cost of grid investments and system reserves needed to integrate renewables in the electricity system. Non-mature RES technologies must be supported by research and innovation schemes rather than charges on consumer electricity bills.

We recommend that any potential future renewable support scheme must be assessed first in terms of costs to the society/industry and then allow for full exemption of additional costs charged to energy intensive industry sectors that face international competition. EU's energy regulation and state aid rules should reflect this as well.

- * (8) Which obstacles, if any, would you see to fully integrating renewable energy generators into the market, including into the balancing and intraday markets, as well as regarding dispatch based on the merit order?

In principle, we do not see any obstacle to fully integrate renewable energy generators into the market, including into the balancing and intraday markets. However, when it comes to dispatch based on the merit order, this would remove priority / guaranteed access which represents another source of competition distortion besides subsidies.

- * (9) Should there be a more coordinated approach across Member States for renewables support schemes? What are the main barriers to regional support schemes and how could these barriers be removed (e.g. through legislation)?

Coordinated approach across Member States for renewables support schemes should not imply further additional costs to our electricity costs. However, we welcome further cooperation between Member States to find cost-effective ways to further promote RES mainly by coordinated, voluntary or non-binding regional cooperation.

Demand response

- * (10) Where do you see the main obstacles that should be tackled to kick-start demand-response (e.g. insufficient flexible prices, (regulatory) barriers for aggregators / customers, lack of access to smart home technologies, no obligation to offer the possibility for end customers to participate in the balancing market through a demand response scheme, etc.)?

In principle, we do not see major obstacles to launch a strong demand response policy in Europe. We understand that the current transition of the EU electricity markets require a robust demand response policy which aims at empowering energy consumers and incentivizing their energy management with concrete and realistic set of rewards. That said, demand response must be market-driven and voluntary. Any market design which forces the consumer to adapt his offtake to the availability of intermittent electricity sources should be highly discouraged.

Today, we are active players contributing to the stability, flexibility and balancing of the grid and transmission systems. We are already providing a broad range of services to TSOs including various ancillary services for system emergencies and more comfortable operation to power generators - thanks to the large and continuous base-load consumption 24 hours a day.

We notice that these practices could be further developed under a proper rewarding system provided that the grids and markets are fully interconnected and harmonized. Otherwise, national grid services mechanism should prevail.

Cooperation between System Operators

- * (11) While electricity markets are coupled within the EU and linked to its neighbours, system operation is still carried out by national Transmission System Operators (TSOs). Regional Security Coordination Initiatives ("RSCIs") such as CORESO or TSC have a purely advisory role today. Should the RSCIs be gradually strengthened also including decision making responsibilities when necessary? Is the current national responsibility for system security an obstacle to cross-border cooperation? Would a regional responsibility for system security be better suited to the realities of the integrated market?

We have no particular views on this question.

Adapting the regulatory framework

- * (12) Fragmented national regulatory oversight seems to be inefficient for harmonised parts of the electricity system (e.g. market coupling). Would you see benefits in strengthening ACER's role?

Stronger regulatory oversight from ACER should be considered when markets are effectively and physically integrated. If that scenario applies, ACER could ensure a level playing field, reinforce framework guidelines and fasten their implementation/delivery.

- * (13) Would you see benefits in strengthening the role of the ENTSOs? How could this best be achieved? What regulatory oversight is needed?

We have no particular views on this question.

- * (14) How should governance rules for distribution system operators and access to metering data be adapted (data handling and ensuring data privacy etc.) in light of market and technological developments? Are additional provisions on management of and access by the relevant parties (end-customers, distribution system operators, transmission system operators, suppliers, third party service providers and regulators) to the metering data required?

We have no particular views on this question.

- * (15) Shall there be a European approach to distribution tariffs? If yes, what aspects should be covered; for example framework, tariff components (fixed, capacity vs. energy, timely or locational differentiation) and treatment of own generation?

Independently whether the industry is connected to the transmission or distribution system, harmonized methodology for grid tariff for the power intensive industry should be implemented in the EU energy regulation based on the properties and the contribution of the power consumption profile to the transmission system. Grid tariffs should reflect the benefit that the baseload consumer takes from and brings to the grid within its relevant area. A harmonized methodology for grid tariff for the power intensive industry based on the properties and the contribution of the power consumption profile to the transmission system should be the objective. Such a tariff system must, however, take into account national differences in grid system and market liquidity and maturity, and not confer undue costs upon the end user.

- * (16) As power exchanges are an integral part of market coupling – should governance rules for power exchanges be considered?

We have no particular views on this question.

European dimension to security of supply

* (17) Is there a need for a harmonised methodology to assess power system adequacy?

A harmonized methodology for power system adequacy implemented within regions and integrated TSO areas seem to be an appropriate strategy in order to establish robust electricity systems and to minimize risk for blackouts and prevent emergency situations. A harmonized methodology may also prevent disturbances in the power system.

- * (18) What would be the appropriate geographic scope of a harmonised adequacy methodology and assessment (e.g. EU-wide, regional or national as well as neighbouring countries)?

We have no particular views on this question.

- * (19) Would an alignment of the currently different system adequacy standards across the EU be useful to build an efficient single market?

More equal system adequacy standards based on system characteristics will contribute to regions that are more robust as regards the security of supply and strengthen the development of efficient markets. Member States and TSOs should cooperate, exchange relevant information and prepare plans and strategies for handling emergency situations and to minimize blackout risks in Europe. Preparedness plans based on risk factors for power outages including mitigating actions should be coordinated and be prepared in a structured way.

- * (20) Would there be a benefit in a common European framework for cross-border participation in capacity mechanisms? If yes, what should be the elements of such a framework? Would there be benefit in providing reference models for capacity mechanisms? If so, what should they look like?

We support the definition of an EU framework where cross border participation and a wide range of market participants will be involved.

However, we notice that national-based capacity mechanisms will not automatically ensure competitive prices and could fragment the European electricity market. Therefore, capacity mechanisms should only be used as last resort option, to secure supply under very specific conditions defined by the European Commission. To avoid market distortions amongst capacity providers, capacity mechanisms must not discriminate between power generation and demand response.

- * (21) Should the decision to introduce capacity mechanisms be based on a harmonised methodology to assess power system adequacy?

We have no particular views on this question.

Submission of additional information

If you want to submit further documents, please send these only to ENER-MARKET-DESIGN@ec.europa.eu. Further documents can only be a complement to answering the above questions. Please also mention your name or that of your organisation in the subject line of your mail and reply to the following question

- * Did you send additionnal submissions to ENER-MARKET-DESIGN@ec.europa.eu

- yes
 no

THANK YOU FOR YOUR COLLABORATION!

Contact

✉ ENER-MARKET-DESIGN@ec.europa.eu
