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Proposal for a revised internal electricity market regulation (COM(2016) 861 final)
Proposal for a revised internal electricity market directive (COM(2016) 864 final)

Fortum's key messages

- The clear preference expressed by the Commission towards market-oriented solutions in the internal electricity market proposals, in particular the strong focus placed on customer empowerment and flexibility, is very positive.

- While moving towards a greater share of variable generation, power markets will have to become more flexible and increasingly rely on price signals. From this perspective, the electricity market proposals are well-defined and able to take development of both the wholesale and retail electricity market in the right direction.

- Measures put forward by the Commission in relation to scarcity pricing, demand response, dynamic contracts and smart meters, as well as clarification of the roles and responsibilities of TSOs and DSOs are welcome and necessary elements of modern and competitive retail markets that are fit for integrating higher shares of volatile RES and meeting customers' diversified needs.

- The objective of the Commission to enhance scarcity pricing, eliminate price regulation and limit market interventions is extremely welcome. However, the uncoordinated development of capacity markets in many member states is at risk of becoming an obstacle to achieving well-functioning and flexible power markets if capacity payments lead to a flattening of electricity prices. Furthermore, efficiency gains provided by cross-border participation in capacity mechanisms can be very limited if the enabling conditions are defined too narrowly.

- Delivering more integrated and efficient close-to-real-time markets and better valuing energy represent an integrated part of the Commission's strategy on market design. In this sense, the optimisation of TSO tasks through a Regional Operation Centre and the obligation to dimension balancing and reserve at a regional level, are a significant step

forward, but will have to be implemented in such a way that rights and responsibilities are made clear.

- There has been more focus put on making the market fit for renewables (smaller bids, smaller timeframes, aggregation) than on making renewables fit for the market. One of the main disappointments relating to electricity market proposals is indeed the weak market integration of renewables: renewable producers are allowed to maintain many exemptions from market obligations (balancing responsibility, market-based dispatch and curtailment), leading to an unlevel playing field, in particular for emerging technologies like storage.

- Main points that should be improved during the negotiation process:
  - Market rules (Art. 4, 11 and 12 of the draft IEM Regulation and Art. 17 of the draft IEM Directive): fundamental principles, such as balancing responsibility, market-based dispatch and curtailment, should be applicable to all market players (i.e. all generators irrespective of their size and assets, aggregators, prosumer and energy communities) in a non-discriminatory way. No exemptions should be allowed.

  - Capacity mechanisms (Art. 23 of the draft IEM Regulation): the overall approach of the proposal towards capacity mechanisms, including a request to make their introduction dependent upon a European adequacy assessment and regional cooperation, can be supported. However, the scope for capacity mechanisms should be regional rather than national. In addition, their impacts on the development of flexible markets should be part of the assessment concerning the viability of the introduction of capacity mechanisms.

  - Energy policies (Art. 3 and 9 of the draft IEM Regulation): greater attention should be paid to the interplay between the market package and the governance regulation to ensure a higher level of policy coordination that genuinely warrants market efficiency, to reduce overcapacity/oversupply in the power market and, in EUAs, to secure a cost-efficient energy transition.