BDI

Energy and Climate Policy

BDI's policy recommendations for a future electricity market design with regard to the security of supply (Executive Summary)

A sustainable electricity market design that guarantees security of supply for both the European and German domestic market and supports the German *Energiewende* is a key priority for the BDI. A future market has to be capable of maintaining the competitiveness of the German industry and requires an integrated European solution to assure supply. Therefore, national regulations have to ensure non-discriminatory market conditions and incentivize the introduction of new technologies.
Investments in the electricity market are capital-intensive and long-term oriented by nature. At present, the political and economic uncertainty surrounding the current electricity market design makes it difficult for stakeholders to adapt. In order to minimize the negative impacts of political risk on the investment climate, the market requires unambiguous and stable policy guidelines. Consequently, BDI strongly advises to refrain from applying political and administrative makeshift solutions to market inefficiencies and proposes the following holistic approach towards a new sustainable electricity market design:

1. Introduction of legally binding security of supply standards

The establishment of legally binding supply standards creates a common yardstick against which society's expectations towards supply security can be measured.

2. Establishment of comprehensive security of supply monitoring

The existing, periodical monitoring of the security of supply carried out by the Federal Network Agency (*Bundesnetzagentur*) should be enhanced and complemented by a long-term outlook on security of supply. An additional, multiannual analysis would provide reliable predictions for security of supply standard compliance in the future. Those prospective studies would have to be carried by out certified institutions, which utilize scientifically based best practices.

3. Enhancement of the Energy-Only-Market

The further development of the Energy-Only-Market is fundamental to increased market efficiency and a guaranteed supply. The relevant policies required to unlock this potential should be initiated as soon as possible.

4. Introduction of a security-reserve

In order to establish a higher degree of supply security a security-reserve, which also functions as an insurance mechanism to the market, should be

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introduced. It could potentially be developed from the reserve concept already included in the *Reservekraftwerksverordnung* (regulating the acquisition of supply reserve capacities and constituting the legal framework regarding the decommissioning of power plants). Such a derived security-reserve concept must feature framework conditions that are marked-based, non-discriminatory and open to all technologies.

5. Constant reassessment of the respective market design with regard to a potential future capacity mechanism

Both the cost and regulatory risks of a security-reserve should be subject to constant reassessment. In case the disadvantages outweigh the benefits of such an arrangement, the introduction of a capacity mechanism should be considered. Concepts for a capacity mechanism should be developed as early as possible. The BDI is convinced, that the concept of a "decentralised capacity market" (DLM) currently fulfils the parameters a capacity mechanism requires.

6. Optimal exploitation of flexibilities

Flexibility measures are of utmost importance to today's energy markets. Therefore they have to be subject to competition "on a level playing field" in order to allow for the most efficient technologies to succeed on the market. Unlocking this flexibility potential requires market incentives and the reduction of existing constraints. The industry's ability to adjust demand must not be impaired by energy efficiency regulations, emissions trading schemes and grid fees.

7. Effective framework for viable self-generation

Self-generation of electricity remains a cornerstone of an energy system which features an increasing supply of volatile renewables and therefore requires an overall higher degree of system flexibility. As part of production networks, self-generation allows for an efficient, secure and competitive supply. Unless the legislative framework changes (e.g. no EEG levy exemption beyond 2017), this form of electricity generation will also continue to contribute to the overall stability of the grid.

8. Equitable distribution of grid expansion costs

Constructing and maintaining transmission and distribution networks is a very fixed-cost intensive business. It should be scrutinized whether the burden of financing such infrastructure could be distributed by the introduction of a higher capacity-based share in the grid charges. This rationale applies especially to distribution networks. In overall terms, a revised grid charge framework needs to cater towards greater system stability.

9. Consequent implementation of a European perspective

A greater level of security of supply and an energy transition towards more renewables can only be achieved through an integrated, European energy strategy. Increased coordination of energy policies among neighbouring countries is the first step towards the achievement of a single European electricity and gas market.