

23 November 2016

EBA Position on Electricity Market Design

EBA supports the European Commission on its decision to develop a more resilient and modern energy market for Europe and welcomes its Communication report of the Energy Market Design ([COM \(2015\)340](#)). Some of the challenges expected to be tackled in the upcoming European Commission proposal are how to integrate a bigger share of variable renewable energy generation, whilst steadily reducing GHG emissions in the energy sector. Biogas, through its flexible and sustainable characteristics, can support both the EU's 27% renewable target and its 40% GHG emission reduction target, while enabling the electricity market to respond to new changes. EBA is convinced that moving away from centralised, large-scale power plants mainly operating with conventional sources to a decentralised electricity generation is a fundamental step to make the EU's electricity market sustainable and more efficient.

EBA's vision for a sustainable Electricity Market Design

With the expansion of the renewable share in Europe, decentralised energy generation is growing and will require an **increase in the market's flexibility to cope with the larger volume of fluctuating renewable electricity generation**. Facing this flexibility challenge, EBA looks at the storage facilities and an easy switch on/off capacity generation to answer to peak demand. **Biogas plants are able to provide rapid start up time mechanisms** and power production that can quickly increase or decrease depending on the electricity market requirements, thereby increasing overall flexibility. In addition, biomethane can be easily stored or transported to existing gas storage facilities, providing the same power generation service of conventional natural gas plants but in a sustainable way. In order to make full use of these benefits, EBA calls for the following market plans:

- **Flexibility remuneration mechanism (in times of electricity market fluctuations)** – Currently, the market for retail competition is still lower than on the wholesale market. Existing barriers such as **production caps and lack of price signals in the electricity market do not allow the consumer to be more pro-active on the demand side**. Hence, helping the market to regulate itself and make the most effective use of biogas in the grid. Efficiently introducing flexibility remuneration mechanisms or a flexibility subsidy by the government should be applied to all AD and gasification products within the new electricity market design. We strongly support a Day-Ahead-Auction and

Price Signals that strengthen the switch to flexible electricity generation. Virtual power plants, meaning small and decentralised power generation working together at market level as a large power plant are already a reality across Europe, they are able to benefit from economies of scale while relying on decentralised infrastructure.

- **Avoid capacity markets and reduce non-renewable large-scale power plants from the baseload**
- The overall European power market and that of most Member States is shaped by an overcapacity issue due to a high centralised power baseload run by conventional sources. This must-run policy impedes renewables from performing at their full capacity, it takes away the incentives for flexibility and results in high inefficiencies which ultimately are reflected by higher costs to consumers. This has two strong implications: firstly, the saturation of the electricity capacity is quickly reached due to the high performance of renewables, making the sustainable generation redundant; secondly, a high conventional baseload is counterproductive to the EU climate and renewable energy targets. Therefore, **EBA strongly advises to reduce the amount of large-scale centralised power load and to substitute capacity markets with new innovative options for the development of flexible and sustainable technology.** This switch will make the system more efficient and market driven, without exposing it any foreseeable risk in terms of reliability or security.
- **Support common schemes between two or more Member States** – Extending cooperation and bidding processes with other Member States in a shared power market can allow greater competition for all renewables and more transparency for investments. **EBA encourages Member States to redesign the balancing markets and be accessible for interconnection capacity to balance the power exchange amongst other Member States.** This can be achieved by introducing a common electricity scheme and balancing regional management under a common assessment strategy and giving clearer roles and responsibilities to national and European actors (TSOs, DSOs, electricity traders, ACER and ENTSO-E).
- **Priority dispatch and priority access for renewables to be continued after 2020** – According to the Renewable Energy Directive, Member States have to ensure that system operators prioritise to access and to dispatch electricity from renewables over conventional sources to guarantee its use and enable them to become more competitive. Equally, the same priority stands for heat and power installations. With the current guaranteed must-run use of inflexible generation capacity, the further deployment of renewables is at risk by a market where existing actors have an unfair advantage. In addition, while the right balance between flexible and variable renewable generation is essential to modernise our energy system, several key renewable technologies are still not mature enough to compete without priority access. For these reasons, **EBA strongly recommends that renewables should be still given a priority access after 2020 for both the generation of electricity and the cogeneration of heat and power** through for example forecasting tools, communication market signals and compensation schemes for flexible power generators **as well as priority dispatch for small installations up to 500 kW at least.**

- **Focus on GHG emissions' contribution of renewables** - Since the EU committed to reduce by 80-95% its GHG emission by 2050, the promotion of a higher share of renewables are a very crucial component to this target. With a greater use of biogas as a flexible energy source as well as a sustainable alternative to natural gas to generate electricity and heating, the European energy system will significantly benefit from its versatile features. Therefore, EBA also calls for a coherent State Aid framework for renewables that goes hand in hand with the EU climate and environment targets. From a technical perspective, the production process of biogas through anaerobic digestion and gasification, contribute to reduce emissions in the European energy and agricultural sector. The process is using animal husbandry and organic matters avoiding the release of methane and carbon emissions into the atmosphere and uses them for efficient generation of electricity and heat. The generated outcomes such as biogas, biomethane and biofertilisers, are a sustainable and climate friendly substitute to fossil fuels. The additional benefits to the environment and society of technologies such as anaerobic digestion should also be taken into account, in an effort to avoid thinking in silos and move to a systematic approach.

Conclusion

EBA is convinced that biogas will play a vital role as a flexible energy source in the new electricity market design to ensure sustainable and secure energy generation in Europe. With the necessary regulatory changes to Europe's electricity market, renewables will be deployed at their full potential. Along with other renewables, biogas and biomethane can perform an important part in strengthening the electricity market of Europe in the middle and long term.
