

## **Keynote speech: Lord Mogg, Chairman of the Board of Regulators, ACER, CEER President**

I'm delighted to accept the invitation to speak and pleased to see the conversation started by the ACER Bridge to 2025 being carried on by the Commission. Clearly today is the closing date for responding to the Commission's thought provoking consultation and I'm not going to miss the opportunity to plug the joint CEER/ACER response (and mention some of those proposals from the Bridge).



Europe's electricity system is in the midst of profound change. We're quickly moving away from an era when large-scale centralised power plants – largely fossil fuel based – had their principal objective to supply every home and industry with as much electricity as they wanted - it was a period when the role of consumers – households, businesses and industry – was essentially passive.

How that has changed. The move towards decentralised generation increases the number of involved players and changes existing market roles. Markets increasingly need to be fully integrated. New developments – such as flexible demand, energy service providers and our challenging renewable energy targets- must be accommodated. Such profound changes require effective regulatory and governance frameworks not only at EU but also at national level.

The challenges for us all are huge; the targets are demanding (min 40% reduction in domestic greenhouse gas emissions achieved by 2030). The changes – to deliver this transformation at lowest cost – profound. But overall the changes have to deliver for customers.

Regulators and the Commission are keen to put consumers at the heart of the energy union and I want to make sure we know that customers are benefitting from our efforts. With that in mind, an important part of the Energy Union package is to define what success looks like and make sure we're assessing whether we're achieving it (for instance building on the work regulators have already started through the Gas Target Model or our well-functioning retail markets paper). This means defining the outcomes customers want and using that as a barometer for our policies.

But the Energy Union is timely as we're at an important point. We've got broad agreement on the need to, to decarbonize, ensure security of supply and importantly deliver it in an affordable way for consumers. But we're lacking consensus on the best way of achieving that. On the European front we're part way through building the foundations of a well-functioning electricity market, while nationally, we're seeing an increasing number of interventions in markets. Whether the two are working as consistently as we'd like them to (and whether there's a perfect model) is clearly a point which will be discussed at length over the next few days.

I'd like to start by thinking about what's been achieved. It's perhaps easy to lose sight of what has been done and focus on what needs doing. Many of the building blocks of a well-functioning internal energy market are already in train:

- Full implementation of the CACM and Balancing Network Guidelines will set a framework that opens up cross border capacity and creates the price signals to ensure that this infrastructure is used efficiently.

- Day Ahead market coupling has been rolled out across 22 countries and flows are responding to price signals. Flow based market coupling has been implemented, we have an agreement on intraday and that's moving forward. This shows that if we get price signals right and work together markets can deliver efficient solutions that benefit all of us.
- We've developed 13 network codes/Guidelines – these are the detailed rules that will underpin the energy union. Member States have agreed 3 and 1 is in force. I believe these codes can be beneficial – but have to be given time to deliver. I'd like to see a real push to deliver and implement these quickly.

But more needs to be done to make markets work properly and send the signals that encourage investment. Prices that properly reflect costs are vital in making markets work and in creating signals that can be passed on to customers. Those prices need to be allowed to rise at times of system scarcity, price caps need to be removed and markets need to be freed up. Well-functioning markets are also the best place for the different buyers of flexibility to be brought together.

But I'm not trying to suggest that nothing needs to change and the concerns about the different directions of domestic and European energy policy are genuine. It is true that, often, support mechanisms shield parties from market prices and make markets work less effectively. It's also true that a lack of coordination in actions to ensure security of supply cause increased costs and, sometimes, problems for neighbouring markets and the markets as a whole.

But I also think it's important to recognize that those mechanisms are introduced to address genuine concerns, particularly among investors, and while we have to see their removal as the goal, we need to be careful to ensure stability and confidence.

- We see real opportunities in assessing generation adequacy in a consistent way across the continent and see big savings arising from making sure we don't over procure capacity.
- We'd focus in this area, rather than on a single design for capacity mechanisms. We need to make mechanisms work together, but don't need identical mechanisms.
- Greater interaction between gas and electricity networks suggests also greater collaboration between the ENTSOs is needed. The growing interaction between electricity and gas sectors should be reflected in institutionalised cooperation between the ENTSOs in undertaking their tasks. This could include, where appropriate, the development and implementation of Network Codes and of undertaking network planning across the European networks on the basis of sound forecasting and analyses.

And it would be remiss of me not to mention the subject of governance. This has aroused much interest over the past months. A European market is, by definition, a market where decisions cannot be solely national. It's also a market in which new entities will emerge and develop and where their role will have to evolve as the market evolves. An effective European market needs robust and transparent governance, where responsibilities are matched with appropriate powers.

I see this as a gradual process with a healthy dose of learning by doing needed. We propose that:

- On ACER –
  - it is now appropriate to move towards an even stronger cooperation and a more robust regulatory framework for the IEM. In particular, we see the benefit of the Agency taking directly decisions (via the BoR) on binding subsidiary instruments, as those for example foreseen in the CACM Guideline, rather than only in those cases where NRAs fail to agree.
  - It is also recommended that the advisory activity of the Agency becomes more robust. ACER plays an important role in ensuring the consistent application of the provisions contained in the EU energy acquis and in fostering the sharing of good practices, thus promoting a well-functioning IEM. This role of the Agency could be usefully enhanced by extending its opportunity to issue such opinions and recommendations not only at the request of the Commission or of an NRA, but also on its own initiative. (At the moment the Agency provides opinions on the compliance of NRAs' decisions with the relevant legislation at the request of an NRA or of the Commission; provides opinions on the application of Guidelines referred to in Directive at the request of NRAs encountering difficulties with the application; and makes recommendations, in accordance with its work programme or at the request of the Commission, to assist NRAs and market players in sharing good practices).
  - the Agency must be given adequate powers to fulfil effectively the important monitoring responsibilities assigned to it, including, in particular, in respect of information gathering.
- On Regional Security Coordinators – Seamless cross border system operation needs to underpin the market and we see Regional Security Coordinators (RSCs) as a key part of the future power market. We would like to see: a clear roadmap for the geographic scope of RSCs to be extended; the role of RSCs enhanced to maximize added value for secure network operation and cost savings; and clearer roles enshrined in Network Codes and Guidelines and law.
- On Governance of Nominated Energy Market Operators (NEMOs) and other pan European entities – With the increasing reliance on pan-European trading platforms to implement the IEM – Price Coupling Algorithm (EUPhemia) for Day Ahead, XBID for Intra-Day, the Single Allocation Platform for transmission rights, as well as coordinated capacity calculators, and the capacity booking platforms for gas – market outcomes across the EU will be driven by monopoly or near monopoly functions, where the costs of each entity not performing their functions effectively are high. We, therefore, see a case for these entities to be regulated (in some form), to ensure both cost effectiveness, quality of service and timely delivery of the trading infrastructure to all countries participating in the IEM.
- On the ENTSOs – We wish to see an evolution in the role of the ENTSOs such that it is clear they are acting in the interests of the Union as a whole. There should be clarity on how decisions are taken, stronger financial independence from TSOs and they should be subject to oversight by the European Commission and ACER. Enhanced cooperation between ENTSOs and DSOs and enhanced coordination within DSOs should also be seen as a priority.

I also want to mention DSOs, who are going to have to play a big role in the energy transition and whose role will change markedly. We have recently elaborated four principles to guide our future work. They are:

- DSOs must run their business in a way that reflects the reasonable expectations of network users and other stakeholders including new entrants and new business models, now and in the future.
- DSOs must act as neutral market facilitators in undertaking their core functions
- DSOs must act in the public interest taking account of the costs and benefits of different activities.
- The consumer owns his/her data and DSOs must safeguard that data when handling it.

With the increasing penetration of distributed (including RES-based) generation, DSOs will be called to play a more active role in the overall management of the electricity system. Therefore, it may make sense that they become more involved in the shaping of the vision and the rules for the new electricity market design, something that DSOs themselves have been calling for. However, at present, DSOs in Europe are represented by several “associations”, not always speaking with one voice. Therefore consideration should be given to whether DSOs should be encouraged, or mandated, to establish a single body through which they can more efficiently participate in this process. Such single EU DSO body would also facilitate the communication and cooperation with ENTSO-E, whose effectiveness should be improved given the need of a closer relationship between TSOs and DSOs.

I’ve covered an awful lot there. The need to focus on delivering the network codes and guidelines we’ve developed; creating robust price signals within markets; a focus on wider adequacy assessments. I’ve also talked about the need for the governance frameworks underpinning these arrangements to evolve – whether that’s for ACER & NRAs, TSOs, DSOs or other bodies.

Both ACER and CEER are keen to playing a central part in delivering the Energy Union and look forward to supporting the Commission and listening to discussions over what will be an interesting 2 days. Last but not least we need to take the necessary steps in this new energy market design with a joint commitment from all Institutions and stakeholders and a continuous effort by all of engaging consumers in order for them to take ownership of energy transition as the Energy Union Communication highlighted.

*Lord MOGG  
Chairman of the Board of Regulators, ACER – CEER President  
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