

## **The European electricity system in crisis: the ways forward**

### **Seminar at Chaire European Electricity Markets (CEEM) at the Université Paris-Dauphine, 3<sup>rd</sup> April 2014**

Short summary of comments made by Professor Dr. Marc Oliver Bettzüge, University of Cologne

#### **Key symptoms of crisis:**

- Cost, both in terms of prices (induced by excessive taxation and levies such as RES-E-tariffs) and foregone producer rents (often neglected in public debate)
- Capacity mismatch with regard to oversupply, technical structure (jeopardized by extensive technology-specific subsidies, in particular for RES-E), and geography (relevant in particular for South Germany due to rapid phase-out of nuclear power plants without substantial simultaneous compensation)
- Distortions in wholesale market, essentially as a consequence of “system-blind” RES-E-support (e.g. negative prices, additional bottlenecks, introduction of phase-shifters)
- Extreme regulatory uncertainty both for investors and innovators

#### **Diagnosis:**

- European electricity markets suffer from policy-induced ‘schizophrenia’. Two fundamentally contradictory trends: Liberalization and EU-market integration (starting 1998, and including the European, technology-neutral EU-ETS-paradigm) vs. reassurance of national and technology-specific prerogatives (esp. after 2007). An EU-IEM must be fundamentally neutral towards geography (where to invest), and should be – as much as possible – neutral vis-à-vis the technology (what to invest).
- ‘Schizophrenia’ encoded in EU-RES-E-directive (2009) which allows member states to give RES-E-support, and to restrict support schemes to locations within own territory. Interestingly, conformity of EU-RES-E-directive with EU law currently being challenged at the European Court of Justice (so-called ‘Aland-case’).
- Lack of systematic subsidiarity principles further contribute to fragmented regulation landscape. For lack of EU competencies, national policymakers are increasingly tempted to fill the gap. Thus, however, a vicious circle of largely uncoordinated national re-regulation is set into motion, creating ripple effects in neighbouring countries due to parallel trend of market integration. In turn, pressure for national interventions further increases, and so on.
- The key challenge for policymakers therefore is to restore credibility to the regulatory landscape. While being tempted to resort to national and administrative (anti-competitive) measures, such moves further undermine long-term credibility because of their lack of crossborder harmonization in an integrated market.

- Suggested analogy: a single currency without an integrated monetary policy set by the European Central Bank: this would not have worked, either.
- Moreover, there are unbalanced objectives (e.g. 20-20-20 giving no reference to targets for energy cost or security of supply; EU-ETS as a cap-and-trade scheme whereas policymakers seem to look for price-targets rather than for quantity targets) and inadequate institutions (e.g. RES-E-support schemes which fail to properly integrate RES-E into the market; incomplete integration of grid regulation; mismatch between bidding zones and bottlenecked regions, also cross-border).
- As an aside: there is no empirical evidence that an introduction of capacity mechanisms were required.

#### **Some ideas for a cure:**

- Fight ‘schizophrenia’. Give priority to EU-harmonization for all regulation which endangers EU internal market and undistorted competition. This is the only way to restore political credibility (short of destroying the IEM).
- In this context, clarify “national sovereignty over the energy mix” in Article 194 of the Lisbon treaty: licensing of technologies (not distorting) vs. subsidising technologies/locations (potentially distorting).
- This clarification is particularly urgent for countries with significant level of market integration such as e.g. Central Western Europe (France, BeNeLux, Germany, Switzerland, Austria). For these countries, a stronger coordination of energy policies and relevant regulation is overdue. Président Hollande’s recent suggestion of stronger Franco-German cooperation thus is very reasonable. His suggestion of a “Franco-German Airbus” in the energy sector would probably create most value by being implemented as a potential merger of the TSO’s.
- In this framework of a more effective implementation of the subsidiarity principle, improve objectives by explicitly accounting for trade-offs in the energy policy trilemma between cost, security of supply, and ecological concerns
- And: Enable as much competition as possible, as a driving force both for static and dynamic efficiency, and for competitiveness of EU energy sector in the global arena.

**For further reference:** M. O. Bettzüge, European electricity markets: policy deficiencies, design deficiencies, and opportunities for policymakers, 2014, in: Commissariat Général à la Stratégie et à la Prospective (ed.), The Crisis of the European electricity system, Paris, pp. 45-63 (2014).

**Press contact:** Daniel Matthes, Press Officer, EWI, Vogelsanger Strasse 321, D-50827 Cologne, Germany, +49-221-27729 116, [daniel.matthes@ewi.uni-koeln.de](mailto:daniel.matthes@ewi.uni-koeln.de).