



Brussels, Oktober 2015

Input to public consultation on ENERGY MARKET DESIGN

by Eurometaux, EU Transparency Register n° 61650796093-48

Eurometaux supports the Commission's goal to establish a European wide electricity market, in order to facilitate competition between suppliers, unhindered flows of electricity across borders and thus give real choice to, and reduce costs for consumers in particular for electro intensive industries.

Future electricity market design should incorporate:

- ✓ **One main EU target are affordable energy prices for all.** New electricity market design's top priority should be affordable prices ensuring competitiveness sideways with a coherent and **consistent holistic climate and energy policy**: absolutely essential are policy framework conditions which remain predictable and stable over the longer term. Reinforcing the **competitiveness of European industry and securing international competitiveness** is of paramount importance.
- ✓ Revision of the Emission Trading System (ETS) should enable a **cost-efficient transition** towards a low-carbon economy. **This is conditional upon improved and predictable pan-European compensation measures for CO2 costs in the electricity prices for globally competing industries, exposed to carbon leakage risk.**
- ✓ New electricity market design should follow **market-based principles**. In this respect **regional power markets** can play a key role as "stepping stones" in approaching such an EU-wide electricity market (e.g. Nordic electricity market, German-Austrian power market)
- ✓ **Subsidies for the deployment of renewable energy production should be temporary, transparent and technology neutral.** Any potential future (transitional) renewable support scheme should ensure full exemption to electricity intensive industry competing globally.
- ✓ **Capacity mechanisms represent a significant regulatory intervention.** As such it is crucial that Member states and the European Commission work to ensure that other options are exhausted before capacity mechanisms are pursued. Non-ferrous metals industries are baseload consumers, with predictable uptake of electricity and therefore not a cause of intermittency in the system. Consequently NFM should be exempted to contribute to any (potential) capacity mechanism.

Al Cu Ni Pb Sn Zn Au Ag Pt Sb W Be Si Cr Co Mo Ge V Mn Ir Ru Rh

- ✓ Market design for **demand response must be developed regionally**, in close cooperation with stakeholders. Reward must reflect real value of flexibility, and incentivize use of existing capacity which in the long run will give the highest benefit at lowest cost. As seen from the consumer side, there are increased costs and increased risks that have to be compensated.
- ✓ Voluntary **long term contracts** are one of the appropriate tools to give sufficient incentives to investors. Competition rules should allow all players to conclude this type of contracts and all regulatory barriers should be removed. Long term contracts can be desirable in order to provide **investment certainty** and financing for new generation capacity (large scale projects).

FURTHER ELABORATION ON THE SPECIFIC QUESTIONS:

Question 5: Are long-term contracts between generators and consumers required to provide investment certainty for new generation capacity? What barriers, if any, prevent such long-term hedging products from emerging? Is there any role for the public sector in enabling markets for long term contracts?

Long term contracts (LTC) are required as they provide predictability of electricity price levels to the consumer and to the power generator:

- ✓ Non-ferrous metals installations are major customers to the power generator. With its single point of delivery, a very high installed capacity, the installations run 24 hours a day and 365 days per year. They absorb a high share of power production units, reducing significantly the generator's exposure to fluctuating consumption on the long run. LTCs also provide predictable income to the generator, with some guarantees.
- ✓ While majority of nonferrous metals commodities are electro-intensive industries, they are also a critical enabler for GHG emissions target reduction (low carbon footprint, high recyclability rates and unique material performance for buildings, automotive, RES and aerospace sectors).
- ✓ Power represents 30% to 50% of the overall operation costs for these installations. Long-term contracts and predictable electricity prices is therefore critical factor for today's and future competitiveness of these sectors. Energy costs are the main localization and investment factor. In our business model, the level of investment is directly linked to the duration and predictability of the power contract. Significant investments are amortized over the long run, typically between 15 and 25 years, just like in the energy sector.

In the current context, some barriers do exist to the conclusion of long term contracts:

- ✓ The electricity wholesale market is too shallow to provide the long term price signal, on the time horizon necessary for these investments to occur and for the volume of electricity at stake for each nonferrous metals producer.
- ✓ Power price forecasts are highly influenced by CO2 price assumptions and other electricity regulated costs such as renewables support schemes and electricity-related taxes. Uncertainty regarding fragmented and ineffective carbon compensation schemes and other regulatory costs (i.e. levels of payments for grid costs, renewables fees and other taxes) are major barriers in the discussion of long term contracts between smelters and power generators.
 - Therefore, to ensure the viability and allow major investments in our industry, the public sector has a role to enable long term contracts:
- ✓ The energy market design reform should envisage the possibility to promote voluntary long-term electricity contracts at a competitive price as they make good business sense for the generator and the consumer and facilitate the conditions to promote this practice.
- ✓ Furthermore, for this specific segment, the public sector should provide predictability beyond 15 to 20 years on support mechanisms that enable electro-intensive industry remain globally competitive.
- ✓ This reform should also take into account that liquid financial forward markets will improve confidence among market participants, and support mid-term contract negotiations (5 to 10 years).
- ✓ Principle of freedom to negotiate voluntary long-term contracts in any EU wholesale market and alternative pricing based formulas should be encouraged at EU level.
- ✓ Optimal use of transmission network is vital. TSOs should not be encouraged to sell long term transmission rights, and in any case industry consumers must not bear the risk of TSOs' potential loss from selling Transmission rights.

Question 8: Which obstacles, if any, would you see to fully integrating renewable energy generators into the market, including into the balancing and intraday markets, as well as regarding dispatch based on the merit order?

Specific support schemes (if any) to achieve RES targets should be temporary, transparent and technology-neutral. All types of resources should be subject to the same network connection rules and operational market responsibilities. RES generation should bear the same technical requirements and charges for grid connection and network use as other generators. The European Commission should remove the priority of dispatch for RES technologies and, especially, incentives to produce and charge resulting costs for excess supplies when supply exceeds demand.

Production in times of negative prices should not be economically viable for producers. Imbalance costs created by renewables must be borne by these assets.

Furthermore, since intermittent renewable electricity is becoming an important part of the electricity supply in most Member states, it is important that renewable electricity is integrated into the electricity market, i.e. that RES-E operators act as much as possible like any other power producer as a market participant and responds to market signals and do not lead to market distortion.

Question 10: Where do you see the main obstacles that should be tackled to kick-start demand- response (e.g. insufficient flexible prices, (regulatory) barriers for aggregators / customers, lack of access to smart home technologies, no obligation to offer the possibility for end customers to participate in the balancing market through a demand response scheme, etc.)?

We are convinced that demand response will play a key role in the power system in the upcoming years. For this purpose, market rules should allow demand response to participate in all markets. As it should be the case for all technologies, demand response should only be triggered by market incentives.

Allowing suppliers to offer cost-reflective, flexible price signals that reward consumers' flexible consumption would be a key step forward. In order to ensure that customers can participate in demand response aggregation and do not face undue costs, a robust, transparent and equitable market design should be put in place. Finally, no subsidy should be allocated to explicit demand response programs in order to ensure a level playing field between all demand response providers. Demand response should be based on voluntary market participation. Any obligation to increase or reduce demand is arbitrary and cannot be introduced. The new market design must enable market based demand response through intraday- and balancing markets; or through specialised market mechanisms set



up by the system operators, or through agreements between industry; generators and/or the system operators.

There is a need to remove any regulatory or market barriers (e.g disincentives vis-à-vis flexibility in grid tariff schemes).

Market design for demand response must be developed regionally, in close cooperation with stakeholders. Reward must reflect real value of flexibility, and incentivize use of existing capacity which in the long run will give the highest benefit at lowest cost. As seen from the consumer side, there is increased cost and increased risk that has to be fully compensated.

Al Cu Ni Pb Sn Zn Au Ag Pt Sb W Be Si Cr Co Mo Ge V Mn Ir Ru Rh