

Creating a modern electricity market – Council agrees its position

Press contacts

Ana Crespo Parrondo

Press officer

+32 2 281 56 12

+32 470 88 43 74

On 18 December, the Council agreed its **negotiating position** (general approach) on a regulation establishing the framework for an **internal electricity market** across the EU.

This regulation is one of the legislative proposals of the clean energy package and is the cornerstone of the **redesign of the electricity market**. It revises the rules and principles to ensure a **well-functioning, competitive and undistorted** electricity market with the aim of enhancing flexibility, decarbonisation and innovation.

In so doing, it will help the EU transition towards a low-carbon economy and meet the **objectives of the Energy Union**, in particular the **2030 climate and energy framework**.

“Electricity market design has been a priority for the Estonian presidency and I am extremely pleased that the Council has come to an agreement on this very important regulation where the member states have had very different views. I want to thank all my colleagues and their teams for helping us get here. EU electricity market has been transformed by digitalisation, renewables and active consumers and we need new rules to fit the new reality. With today’s decision, we have taken a huge step to make that happen.”

Kadri Simson, Minister for Economic Affairs and Infrastructure of the Republic of Estonia

This general approach means the Council will be able to enter into negotiations with the Parliament next year. These are the **central elements** of the Council’s position:

In line with the Commission’s proposal, there are new rules to ensure appropriate conditions for **electricity trading** within different timeframes, but with a definite aim to bring trading closer to the real-time. This will allow higher share of renewables production in the energy systems. The new rules on **dispatching and balancing responsibility** will limit the distortions on the market allowing less exemptions compared to now.

The principles for establishing '**bidding zones**', in other words electricity trading areas, are more clearly defined. The rules on capacity allocation as specified in the Commission's proposal require maximum capacity to be allocated to the market participants on the border of a bidding zone. In the Council text, a **benchmark level** of maximum capacity is established on the border and must be respected. Countries below the benchmark level will need to start implementing remedial actions or reconfigure the bidding zones. A **deadline** has been introduced for the entire process, and the Commission is given the opportunity to intervene if the benchmark has not been met by then.

Installations will continue to be rewarded for making electricity generation capacity available through **capacity mechanisms** to cope with peak demands. To ensure the smooth functioning of the internal market, the rules for these mechanisms must be harmonised. The Council position sets out the design principles for capacity mechanisms as well as arrangements for their implementation. An important element is that new installations will be eligible to participate after 2025 only if their emissions are below 550g CO₂/kWh or below 700 kg CO₂ on average per year per installed kW. Also there is a limit for participation for existing power plants which cannot receive payments after 2030 and the payments need to decrease after 2025.

A **European adequacy resource assessment** will be created and used as a basis for decisions on capacity mechanisms along with the national ones.

According to the general approach, by 2025 the Commission will draw up a report evaluating which elements of existing network codes could be included in EU acts concerning the internal electricity market. Amendments to the network codes will be possible up to the end of 2027.

Additionally, the general approach supports the establishment of a European entity of **distribution system operators** and strengthens the role of **regional security coordinators**, defining their geographical scope and concrete tasks.

Timeline and next steps

On 30 November 2016, the Commission submitted the **clean energy package**, including a legislative proposal for a revised regulation on the internal electricity market.

The package as a whole was presented at the Energy Council meeting of December 2016. EU ministers had a first **exchange of views** on the entire package in February 2017 and assessed the **progress made** on electricity market design, governance of the Energy Union and renewable energy in June 2017.

Today's general approach enables the Council to **start negotiations** with the European Parliament as soon as it adopts its position on the file.

Background

The Commission presented the '**Clean Energy for all Europeans**' package on 30 November 2016 aiming at implementing the 2015 strategy for an Energy Union with a forward-looking climate policy.

Four of the eight legislative proposals in the package seek to redesign the internal electricity market of the EU. In addition to this regulation, it includes a revised directive on **common rules for the internal market in electricity**, a revised regulation on a **European Agency for the Cooperation of Energy Regulators** (ACER) as well as a proposal for a new regulation on **risk-preparedness** in the electricity sector.

The new electricity market design will facilitate the transition to a **low-carbon economy** by addressing factors such as increasing inflows of renewables, subsidy schemes, network access rights, storage solutions and regional cooperation.

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