

Federal Ministry for Economic Affairs and Energy
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An Electricity Market for Germany's Energy Transition – Discussion Paper of the Federal Ministry for Economic Affairs and Energy

Energy Norway, the industry association of the Norwegian Electricity sector, welcomes the consultation of the Ministry for Economic Affairs and Energy on the future design of the German electricity markets. We especially welcome the German interest for views from their European neighbours, which takes into account the growth of the cross border interconnection, including a direct cable to Norway in the medium term, and electricity trade and the growing importance of the interconnected market.

Comments on the "no regret measures":

Developing the spot and balancing markets further

Energy Norway fully supports that Germany wants to push for stronger European market integration on the spot, intraday and balancing markets to provide the necessary flexibility to respond to fluctuating renewables production. Developing 15 min products in the intraday and moving the gate closure closer to the operational hour and thereby allowing to trade closer to real time will allow producers and consumers to see the value of their flexibility and increase investment in flexibility of supply and demand if economically profitable. We see potential to extend these solutions also to cross border connections and support that ambition. These solutions require a close cooperation between the TSOs to make the maximum of capacity available to the market close to real time. We think that the current work on the Network Codes is a good first step in that direction which should be followed by more cooperation and coordination.

The close cooperation and integration between the TSOs should also be extended to the balancing markets where the European integration needs to make further progress. This measure should be seen in connection to a strengthened balance responsibility for renewable generation. Only if all actors bear the imbalance cost they cause, will they have enough incentive to reduce imbalances and become active in the balancing markets.

Expanding the power grids

Energy Norway fully agrees with the need to expand the power grid identified in the report. A functioning grid is a precondition for a functioning power market. Various German and European grid development plans deliver a good analysis of where there is congestion and where new grid investment is needed - on the list is also the interconnector project between Norway and Germany. But the cable from Norway can't contribute to alleviate generation adequacy challenges in Southern Germany, when there is congestion between the North and the South. Therefore, the cable investment should go hand in hand with more grid investment within Germany. This would also reduce the internal congestion within Germany, which leads to periodic calls for reviewing and potentially splitting the German price area.

Intensifying European cooperation

Energy Norway fully supports the idea to intensify European cooperation beyond the market integration and the establishment of the Internal Electricity Market mentioned above. In our view security of supply can only be assessed in a regional context, taking into account the contribution from generation in neighboring countries via interconnectors. Relying partly on interconnectors to meet generation adequacy is also probably less costly than aiming for generation adequacy by purely national resources. Current European work on the Energy Union and common generation adequacy assessments in the context of the TYNDP and on network codes regulating TSO cooperation in emergencies are steps in the right direction.

Energy Norway supports the option of the Electricity Market 2.0, as it is the most cost efficient way to incentivize investment in flexible production and demand. In addition, it is the most efficient design to include the benefits of cross border electricity exchange and gives correct incentives to investment in interconnectors. In our view, there are two main preconditions for the success of the described reforms and improvements to the electricity market: investment in electricity transmission within Germany and cross border and the acceptance of peak prices. For the transition period, we support the establishment of limited capacity reserves, which should be activated only when supply does not meet demand. Experience in Sweden and Finland shows that if handled responsibly the cost is limited and the influence on the function of the electricity markets and investment signals is minimal. Strategic reserves can also give a signal for finding out if a capacity market might be needed: if strategic reserves start to cover a significant amount of capacity and are no longer a residual, a switch to a market-wide capacity market including interconnected capacity could be considered to prevent that significant amounts of capacity are withdrawn from the market.

Best regards
Energy Norway



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