PENTALATERAL ENERGY FORUM

Second Political Declaration of the Pentalateral Energy Forum of 8 June 2015

(°2 June)

The Ministers of the Pentalateral Energy Forum, consisting of Austria, Belgium, France, Germany, Luxembourg, the Netherlands and Switzerland, hereinafter referred to as the "signatories",

WELCOME

1. the conclusions from the EU heads of states and governments in October 2014 recognising that regional cooperation is of key importance for attaining EU energy policy objectives;
2. the efforts and initiatives taking place to integrate Europe's electricity markets, in particular the Joint Declaration for Regional Cooperation on Security of Electricity Supply in the Framework of the Internal Energy Market signed by 12 "electricity neighbours" on 8 June 2015;
3. the European Commission's Communication "A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy" according to which regional approaches to market integration are an important part of the move towards a fully integrated European-wide energy market;
4. the benefits of 10 years of operating the Pentalateral Energy Forum, both in terms of efficient working structures between involved ministries and stakeholders as well as with regard to the resultant practical achievements, in particular the implementation of a flow-based market coupling of the day-ahead markets and a first common generation adequacy assessment in the Pentalateral region;

HIGHLIGHT

5. the need to provide regional initiatives with a stable political framework and governance rules in combination with a transparent and compatible working method;
6. the regular meetings of the ministers of the Pentalateral Energy Forum to give political backing to regional integration of electricity markets towards a European energy market;

TAKE INTO ACCOUNT

7. that the flow-based market coupling is a key optimisation of the CWE market and that the methodology can still be further improved in order to fully reach an integrated, secure and sustainable European electricity market, also bringing technological progress;
8. that regional adequacy assessments contribute to a better mutual understanding of security of supply and that, in a highly interconnected system, making methodologies compatible is beneficial;
9. the prerogative of each state represented in the Pentalateral Energy Forum to determine the conditions for exploiting its energy resources and energy mix;
10. that options for compatibility of capacity remuneration mechanisms should be further analysed in order to achieve the best regional interaction between national mechanisms;

11. that improved market design, enhanced flexibility options and the development of a common vision for the market integration of renewable energies may help to ensure the transition to a sustainable electricity system based on an increasing share of renewable electricity generation;

HAVE IDENTIFIED THE FOLLOWING REGIONAL MILESTONES

12. to accompany, together with the National Regulatory Authorities, the Transmission System Operators and other stakeholders, the further improvement of the existing flow-based market coupling by June 2016 and give political support to continuous improvement towards a fully European embedded flow-based day-ahead market coupling, following the objectives laid out in Annex 1;
13. to support quick improvements - in terms of capacity calculation and market integration – of the cross-border intraday market towards the target of EU flow-based intraday market coupling;
14. to aim at further improvements of the common methodology to assess security of supply on the regional level as developed by the TSOs and continue to publish regular reports on the status of security of supply in the central western European region, starting in 2017, in accordance with the objectives set out in Annex 1;
15. to provide conditions for cross-border participation in capacity remuneration mechanisms on the basis of a common regional analysis of security of supply and network constraints by June 2016 in line with Annex 1;
16. to foster the discussion on flexibility, with a first outline by June 2016, by identifying options for more efficient balancing arrangements, increased demand responsiveness on every segment of the market and increased storage as set out in Annex 1;

DECLARE THEIR INTENTION

17. to support the implementation of the working programme set out in Annex 1 and to continue the fruitful cooperation in coherence with the governance rules set out in Annex 2;
18. to review at least every two years whether the regional work is on track as an intermediate step towards an integrated European electricity market;
19. to communicate interim results regularly and thereby provide a basis for an open and transparent cross-regional dialogue;
20. to contribute to the implementation of the “no-regret” measures as agreed in the Joint Declaration for Regional Cooperation on Security of Electricity Supply in the Framework of the Internal Energy Market signed by 12 “electricity neighbours” on 8 June 2015.

Signed at Luxembourg on the eighth day of June in the year two thousand and fifteen.

For the Kingdom of Belgium

For the Federal Republic of Germany

For the French Republic

For the Grand Duchy of Luxembourg

For the Kingdom of the Netherlands

For the Republic of Austria

For the Swiss Confederation

Annex 1 – Working programme

MARKET INTEGRATION

Task

Key objective is to remain a frontrunner in the further implementation of the EU electricity target model for capacity allocation and calculation at day-ahead and intraday timeframes. This entails in particular continuous improvement of the flow-based market coupling system that was successfully launched on the 20th of May 2015 towards an enhanced approach that will further facilitate cross-border trade and thus lead to a more secure and reliable electricity system. Another key area of work is the implementation of continuous intraday trading in the CWE region.

Action points

1. Support an early delivery of a proposal for a common capacity calculation method in accordance with articles 20 and 21 of the CACM Regulation, expected to enter into force by July 2015.
2. Monitor the implementation of the other improvements of the CWE flow-based methodology required by the regulators in cooperation with the project parties, including inter alia the adequacy issue, the implementation of financial transmission rights and the "flow factor competition" issue.
3. Support the process of building a cross-border intraday market with the goal of achieving in intraday the same thing that was achieved in day-ahead.

SECURITY OF SUPPLY

Task

Key objective is to work on the further development of a coordinated approach to security of supply in the Pentalateral region. The work will focus on developing a roadmap for a regional approach to adequacy concerns, which currently are primarily addressed in a national context. This will be based on a continued and improved monitoring of adequacy assessment from a regional perspective performed by TSOs. Furthermore, we will continue to assess the interaction between national policy measures related to security of supply, in particular national capacity mechanisms. This work will include considerations on a market framework for cross-border participation in capacity mechanisms.

Action Points

4. Draw lessons from the results of the delivered regional generation adequacy assessment and reflect on options to accomplish a common vision for addressing security of supply concerns in the region.
5. Seek further improvements in the assessment methodology, taking into account inter alia flow-based capacity calculations, identification of the benefits of interconnections for security of supply, improved weather and hydraulic data as well as demand side options and update the adequacy assessment regularly (e.g. every second year).
6. Assess the option of developing a common reliability standard for the region, including an assessment of the value of lost load in the Pentalateral region.

7. Work to further improve the consistency between adequacy assessment methodologies, in order to be able to capture in a harmonised way all specificities on the national, regional and European levels by developing the use of data, indicators and a shared vision of risk scenarios.
8. Explore with TSOs, NRAs and other stakeholders options for an operational framework for cross-border participation in foreign capacity mechanisms and compatibility conditions for cross-border capacity products, and analyse the interaction of different market arrangements on the basis of this study.
9. Improve cooperation among neighbouring countries as regards the main decisions on national energy policies with potential transnational effects.
10. Identify options for increased cooperation between Pentalateral TSOs, given their crucial contribution to market integration and security of supply in the region. This work could include:
    a. Regular updates on the progress within ENTSO-E on the development of Regional Security Cooperation Initiatives (RSCIs),
    b. Regular updates on increased cooperation between TSOs as a result of the network code process, in particular the CACM guideline (capacity calculation, common grid model, regions, redispatching, etc.) and the operational Network Codes,
    c. Increased coordination between TSOs at the operational level as an essential step to continue their role as key actors in providing security of supply to the region.
11. Explore together with TSOs and NRAs possibilities for a common framework to manage scarcity situations on a regional level. Identify the most efficient solutions to security of supply in simultaneous scarcity situations, which are built on principles of shared responsibility and mutual trust while following EU Regulations on cross-border trade and provisions laid down in the Network Codes.

<u>FLEXIBILITY</u>

Task

Key objective is to identify options for making our markets more flexible. To begin with, existing material, studies, knowledge and best practices on flexibility and market design will be gathered, for both the demand and supply sides. For this reason it is important to invite – where appropriate – relevant experts, consultants and academics to take part in the meetings of the responsible Support Group. The work could include analysis of national approaches that have proven to increase system flexibility as well as national regulations that might hamper flexibility. Such increased flexibility is deemed to be an essential condition for delivering security of supply in a cost-effective manner in our future electricity markets with an increased share of renewables in the system.

Action Points

12. Support the current work being done by TSOs, NRAs and other stakeholders on developing regionally-integrated balancing markets to increase the efficiency of market-based balancing arrangements that allow the market to support the system balance in virtually real time. This work could include:
    a. Assessing the current approaches in the Pentalateral region and exchange on good practices concerning balancing and reserve procurement.
    b. Encouraging the commitment for early implementation of Coordinated Balancing areas (CoBa's) in our region, as foreseen in the context of the EU Electricity Balancing Guideline.
13. Analyse ways to increase demand responsiveness, which could include:
    a. Identifying best practices in are of demand side response and encouraging a better coordination of initiatives within the Pentalateral region.
    b. Identifying possible regulatory or other obstacles to the development of demand side response on every segment of the market.

14. Analyse ways to increase storage, which could include:
    a. Identifying best practices in the area of storage, benchmarking the regulatory frameworks that have been put into place to integrate storage, in relation to the different services it can bring, and encouraging a better coordination of initiatives within the Pentalateral region.
    b. Identifying potential obstacles to the development of storage.
15. Identify and exchange on existing barriers to flexibility on the demand and supply side and work towards a coordinated approach.
16. Assess how high scarcity prices (= removal of price caps) in our wholesale markets will lead to more reliable price signals to peak load generators, as they are considered to be an important condition for increased flexibility in our electricity markets.
17. Analyse how the integration of renewable energy resources into the market could take place in a cost effective manner in accordance with the new guidelines on state aid for environmental protection and energy issued by the EU Commission and work towards a coordinated approach.

Annex 2 – Governance

1. The Ministerial Conference is the governing body of the Forum. The Ministers decide on the main goals of the Forum. They review, assisted by the Directors General, its progress at least every two years. Decisions are taken by consensus.
2. Coordination and monitoring of the overall process are performed by the Coordinators' Committee, representing all signatories. The Coordinators Committee will meet at least twice a year to discuss and make sure that consensus over the working programme and working methods remains guaranteed. Where appropriate, the Committee can invite experts from other states to discuss specific issues.
3. The working programme is implemented by Support Groups. Each Support Group is chaired by representatives of the Ministers and consists of experts from the European Commission, Regulators, TSOs, Power Exchanges and other market participants.
4. The Secretariat general of Benelux will support the work of the Forum and shall ensure continuity of the overall process.