DANISH MINISTRY OF
CLIMATE, ENERGY AND BUILDING

Stormgade 2-6
DK-1470 Copenhagen K
Denmark
Tel +45 3392 2800
Fax +45 3392 2801
kebmin@kebmin.dk
www.kebmin.dk

Bundesministerium für Wirtschaft und Energie

E-mail: gruenbuch-strommarkt@bmwi.bund.de

Permanent Secretary

16 MAR. 2015

File no. 2015 - 381

Comments from Denmark on the Green Paper 'An Electricity Market for Germany's Energy Transition'

Thank you very much for the opportunity to comment on the German Green Paper "An Electricity Market for Germany's Energy Transition". We highly appreciate the regional approach taken by Germany to include neighbouring countries in the discussions on how to adjust the German power market to the new challenges.

Germany as well as Denmark has an ambitious energy policy with strong emphasis on renewables and energy savings. A large and growing share of electricity is generated by wind and in Germany also by solar energy, which is affecting the electricity market in both countries. It creates a new framework for the functioning of the electricity market which originally was designed in another context. However, as it appears from the Green Paper both countries have the same approach to many of the challenges.

Germany's energy policy – through the country's size and central geographical position – has a substantial impact on the European common electricity market. Any decisions made in Germany regarding the future market design, will guide decisions in neighbouring countries as well. For the future design of the German energy market we would therefore like to convey the following messages:

1) *Denmark is strongly affected by internal German decisions*
   Denmark participates in the electricity market with two price zones, but since the share of interconnector capacity compared to total production capacity is large and the Danish market size is small compared to the German and the Scandinavian markets, electricity prices in Denmark follow prices in neighbouring price zones. Only 10% of the time annually Denmark has its own electricity price.

   Therefore any additional payments to German power generators will directly impact the price on the Danish electricity market in a downward direction. If a capacity market were to be introduced in Germany in the future, the commercial situation of the German power plants would be enhanced, while at the same time reducing the viability of the Danish thermal production portfolio. Implementing a capacity market in

Germany could thus put pressure on Denmark to also consider introducing a capacity market in our country.

In order to ensure the full functioning of a common European electricity market it is also very essential to keep the interconnectors open also in scarcity situations. The potential implementation of a capacity market in Germany should not lead to any negative effects on interconnector availability. Also the usage of interconnectors in times of activation of strategic reserves should be coordinated in bilateral or regional agreements.

2) *No regret measures are useful and should be implemented as soon as possible*
In the Green Paper a range of no regret measures are introduced, which are deemed necessary independently of the implementation of capacity payment or market. Denmark supports this approach, i.e. to postpone decisions on capacity mechanisms and tackle potential short term lack of capacity through a strategic reserve. In fact, a parallel process of procurement of a strategic reserve is currently underway in east Denmark.

Denmark also strongly supports the German "Netzentwicklungsplan (NEP)" process and the high focus on the reinforcement and extension of the transmission grid in North-South direction within Germany. Any additional internal grid capacity in Germany will have a positive impact on the Danish market and help ensure the availability of already built and planned interconnector capacities.

Increasing the flexibility of both thermal generation and demand are other no regret measures that are highly supported by Denmark. Danish central power plants (coal, gas and biomass) have been very successful in driving drown the minimum load through various technical measures, demonstrating that increased generation flexibility is a possibility as a very relevant instrument. Regarding increased demand side response, we are analysing the right incentives at the moment but we are lacking large and energy intensive industries to act as the main drivers for technological development.

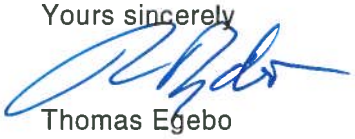
From the Danish market's perspective we do not see any immediate need to increase the technical maximum prices in the spot market. However, it is essential to ensure investors that there will be no political intervention, even if prices are high in longer time periods due to scarcity.

3) *Regional clusters have proven success record in the Nordic region*
Regarding the further enhancement and development of the internal energy market and inclusion of renewable energy in the system it would be advantageous to put more emphasis on regional cooperation. We agree that this will enable cooperation not only on interconnectors, capacity issues and flexible consumption matters but also enable expansion on valuable cooperation in terms of bringing down the total system costs.

Within the Nordic region we have some very positive experience in planning and decision making in a regional perspective. The current system of interconnectors in the region is largely a product of looking at business cases from a regional perspective instead of only from a national point of view.

We hope these comments are a useful input at the current stage of discussion of a future electricity market model for Germany. We are looking forward to seeing the output of this consultation process in the form of the White Paper.

Yours sincerely



Thomas Egebo