

POSITION ON REVISION OF THE EU'S ELECTRICITY MARKET DESIGN

The proposed reform of the European Union's electricity market design is crucial to achieving the goal of making the European Union climate-neutral by 2050. As European Enterprise Alliance, we support the reform's aim to encourage the use of renewable energy sources, increase competition, and ensure long-term availability of energy.

The EU has proposed emergency measures to combat fluctuating energy prices, while also undertaking a structural reform of the electricity market to secure energy sovereignty and achieve climate neutrality by 2050. The proposed reform aims to make it easier to use renewable energy sources, encourage competition, and guarantee long-term energy availability while protecting consumers from price volatility.

The current electricity design EU

The current Electricity Market Design in the European Union is governed by the Electricity Regulation (EU) 2019/943 and the Electricity Directive (EU) 2019/944, which were adopted in May 2019 as part of the Clean Energy for All Europeans package. These legislative acts entered into force in June 2019 and aim to modernize the EU electricity market, increase competition, and enhance the integration of renewable energy sources.

The legislation introduced several key changes to the EU electricity market, including:

More active participation of consumers: The new rules enabled consumers to participate more actively in the electricity market, for example by allowing them to sell their excess energy production to the grid or to participate in demand response programs.

More regional cooperation: The new rules encouraged regional cooperation and the establishment of regional coordination centers to facilitate cross-border trade and ensure the security of supply.

More flexibility: The new rules introduced more flexibility in the market, for example by allowing market participants to trade electricity in smaller time intervals (e.g., 15 minutes) instead of the previous hourly intervals.

More support for renewable energy: The new rules increased the share of renewable energy in the electricity mix by introducing more market-based mechanisms to support their deployment, such as auctions and other forms of competitive bidding.

Overall, the new Electricity Market Design aimed to create a more flexible, competitive, and consumer-friendly electricity market that can better accommodate the increasing share of renewable energy sources in the EU energy mix.

Shortcomings in the current design

While the current European Union electricity Market Design has introduced several positive changes, there are still some shortcomings that need to be addressed. Some of the key criticisms and challenges include:

Lack of harmonization: The new rules allow member states to adopt different approaches to certain aspects of the market design, such as the design of capacity mechanisms, which could lead to market fragmentation and inefficiencies.

Insufficient support for RES producers renewable energy producers: While the new rules aim to increase the share of renewable energy in the market, some critics argue that they still do not provide enough support for small-scale producers, such as households and communities.

Insufficient integration of energy storage: The new rules do not yet fully address the integration of energy storage technologies into the market design, which could be a key enabler of a more flexible and resilient energy system.

Insufficient focus on demand-side flexibility: While the new rules aim to empower consumers, some argue that they do not yet provide sufficient incentives for demand-side flexibility, which could be a key tool for balancing the grid and reducing the need for costly investments in generation and transmission infrastructure.

Overall, these shortcomings highlight the need for further reforms and improvements in the European Union Electricity Market Design, in order to create a more harmonized, flexible, and sustainable energy market that can support the transition to a carbon-neutral economy.

The Commission's planned reforms aim to tackle the aforementioned shortcomings and create energy markets that are stable and well-integrated. These markets will need to continue to attract significant private investment in order to enable the European Green Deal objectives and support the transition to a carbon-neutral economy by 2050.

Making Electricity Bills More Independent from the Short-Term Cost of Fossil Fuels

The current market design for electricity is focused on short-term markets and volatile fossil

fuel prices, which has recently resulted in significant price spikes for households and companies. Consumers often have no choice but to pay these higher prices, as they may not have access to cheaper electricity from renewable sources or be able to install their own solar panels. The current regulatory framework has not been effective in protecting consumers from this volatility. Short-term markets are important for integrating renewable energy sources and ensuring that electricity flows smoothly, but sustained high prices can lead to unaffordable bills for many. This has also led to increased revenues and profits for energy producers with lower marginal costs, such as renewables and nuclear (due to Merit Order mechanism).

According to the Commission, to address the volatility of short-term electricity markets, there is a need for additional instruments and tools to incentivize the use of long-term contracts. This will create a buffer between consumers and short-term markets and provide more stable electricity bills over longer periods. Power purchase agreements (PPAs) are one type of long-term contract that allows electricity to be sold at an agreed price, which should not be determined by short-term markets. PPAs benefit consumers by providing cost-competitive and stable electricity, benefit renewable project developers by providing a source of long-term income, and benefit governments by providing an alternative to public funding for renewable deployment. However, the market share of emerging PPAs segments remains limited and is primarily confined to large companies in certain Member States.

The Commission aims to increase the share of power purchase agreements (PPAs) in the electricity market and incentivize their use through market design. Public tendering for renewable energy and credit guarantees backed by public actors could promote the uptake of PPAs, especially among small and medium companies. Measures could also encourage industrial consumers and energy suppliers to enter the PPA market.

Two-way contracts for difference (CfDs) are another type of long-term contract that can trigger investments with public support. These contracts ensure that the income of producers is less dependent on short-term markets and can be established through a competitive tender process. In situations of high prices, two-way CfDs can provide Member States with additional funds to reduce the impact on consumers.

The upcoming electricity market reform presents an opportunity to integrate two-way contracts for difference (CfDs) into the market design. The reform must consider whether the use of CfDs should be mandatory for investments involving public support and whether they should only cover new generation assets or also certain types of existing assets. However, the development of CfDs should not affect the growth of power purchase agreements (PPAs) in the EU, as both instruments are necessary complements to achieve renewable energy deployment.

The regulatory framework should introduce specific principles to govern two-way CfDs to drive new investments in inframarginal generation. Careful calibration is necessary to ensure that CfDs provide the necessary incentives at the least cost for consumers. One option for the integration of two-way CfDs into the electricity market design is to allow Member States to offer contracts on certain types of existing inframarginal generators through competitive bidding. However, a more far-reaching approach would be to impose these contracts on certain types of existing inframarginal generators through ex-post price regulation, which could create uncertainty for investors in renewables and increase costs, potentially being

counterproductive.

Driving Renewable Investments - Europe's Way Out of the Crisis

Increasing renewable energy deployment and electrification is seen by the Commission as critical for Europe's security of supply, affordability of energy, and achieving climate neutrality by 2050. The accelerated deployment of renewables and energy efficiency measures is expected to reduce demand for fossil fuels and lower energy prices across the EU. Any regulatory intervention in the electricity market design should preserve and enhance investment incentives, provide investors with certainty and predictability, and address economic and social concerns related to high energy prices.

Alternatives to Gas to Keep the Electricity System in Balance

The consultation aimed to improve the conditions for flexibility solutions like demand response, energy storage, and weather-independent renewable and low-carbon sources in the markets. The consultation seeks input on how to safeguard security of supply and adequacy in unforeseen crises to ensure timely investments in capacity. The consultation also seeks stakeholders' views on whether certain aspects of emergency interventions, such as the inframarginal cap introduced during the crisis, could be turned into more structural features of the electricity market design. The success of such measures would depend on limiting the impact of high electricity prices while ensuring that they do not harm the investment incentives required to achieve the decarbonisation of the power sector.

Better Consumer Empowerment and Protection

The energy crisis has led to higher energy costs for consumers and industries, resulting in a lowering of their standard of living and production capacity cuts. The incomplete implementation and enforcement of consumer rights under the Electricity Directive have exacerbated the impact of the crisis. This consultation proposes creating a buffer between consumers and short-term energy markets by offering consumers more opportunities to participate in energy markets and access longer-term contracts for renewable power purchase agreements. It also suggests requiring suppliers to be adequately hedged and establishing an effective Supplier of Last Resort Regime to ensure continuity of supply. In addition, it proposes enabling Member States to guarantee households and SMEs access to a minimum necessary amount of electricity at an affordable price during crises.

Stronger Protection against Market Manipulation

Regulation 1227/2011 on wholesale market integrity and transparency (REMIT) aims to ensure the integrity of electricity and natural gas markets, fair prices, and prevent market abuse. However, in times of high price volatility, interference, and new trading behaviours, there is a risk of illegal trading practices. Therefore, the REMIT framework needs to be updated and strengthened with increased transparency, monitoring capacity, and cross-border investigation and enforcement to support new electricity market design. A Market which should not behave comparable with financial markets in terms of speculation bubbles and emotional reactions. Internal EU electricity market should be resistant to intentional, external attempts to destabilize it.

Next Steps

The consultation was designed to allow all stakeholders and other interested parties to give their opinions on the policy objectives and specific measures that was included in the reform proposal. The aim was to present amendments to the electricity market design by March 2023. All responses to the consultation must be submitted by February 13, 2023. Although the leaked draft of proposed EU electricity market reforms, which include reclaiming excess profits from subsidized renewable energy projects and promoting offshore wind power, has generated a range of emotional responses and comments by our side, Certainly, once the official document is released, we will assess the plans and expectations in more detail through a thorough review.