

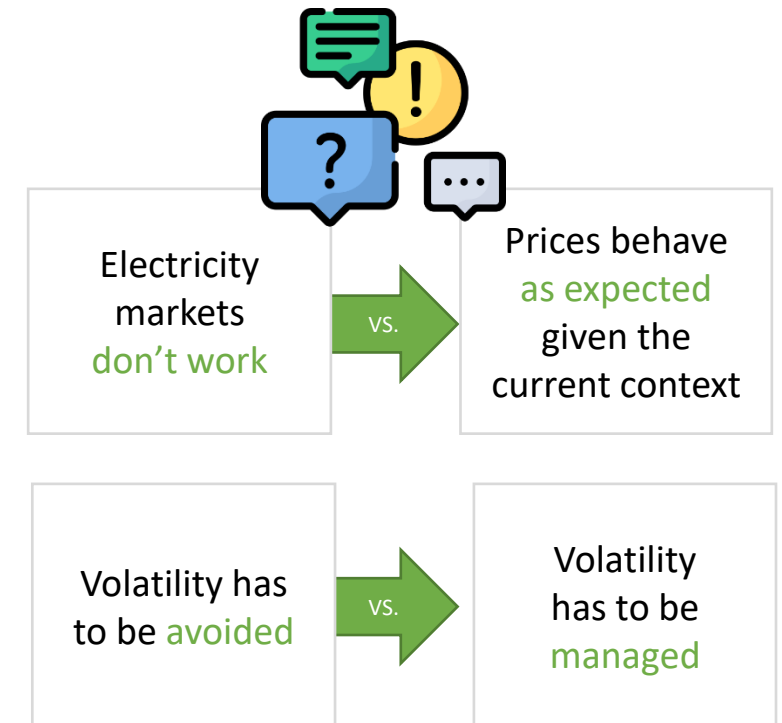
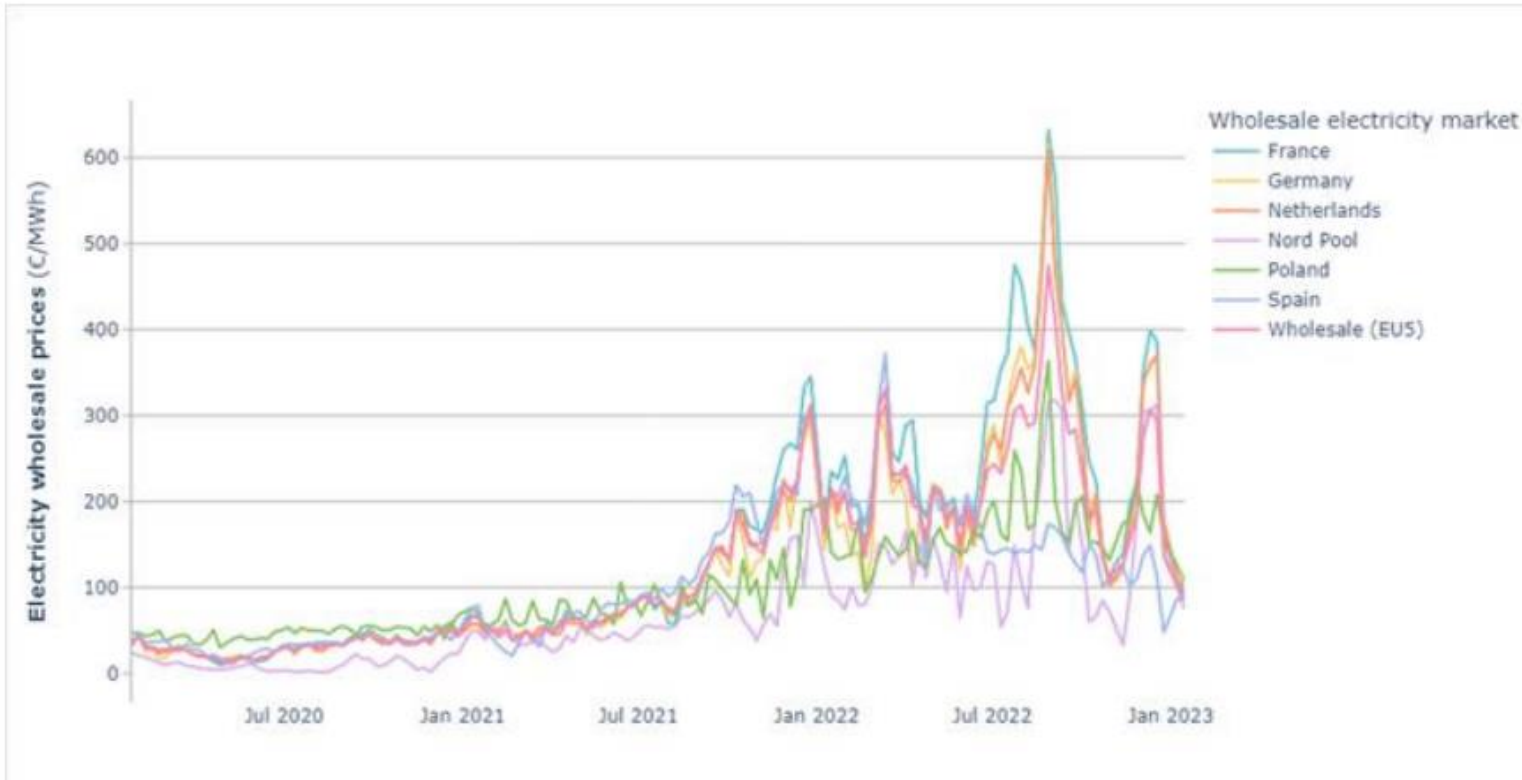


Electricity market design

Mitigating the impact of high gas prices on electricity bills, protecting consumers and boosting RES investment

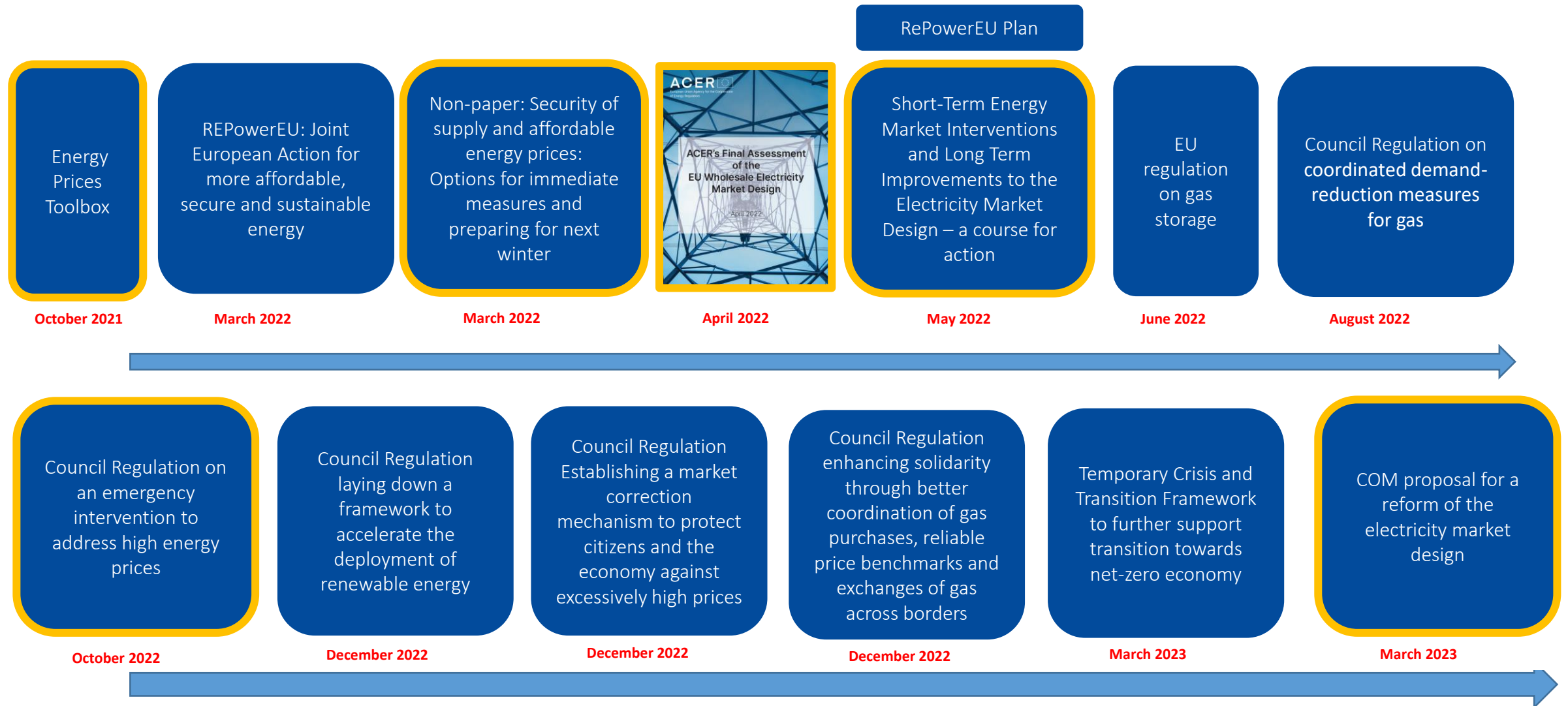
María Eugenia Leoz Martín-Casallo
European Commission, Directorate-General for Energy
12 September 2023

Context: the energy crisis



Evolution of the EU electricity wholesale prices, source: Platts

EU actions to tackle the crisis (short and long-term actions)



Reform of the EU's electricity market design

Two proposals:

- Revision of the electricity market design
- Revision on the EU's protection against market manipulation in wholesale energy markets

Objectives:

1. Enhance stability and predictability of the cost of energy contributing to the competitiveness of the EU economy
2. Accelerate the integration of renewables with flexibility services
3. Better protect and empower consumers
4. Better energy market monitoring and surveillance (REMIT)

1. Enhance stability and predictability of the cost of energy, contributing to the competitiveness of the EU economy

Problem: *Energy bills can be overly impacted by short-term electricity prices (now often driven by - volatile fossil fuel costs), with severe impact on EU households and economy. Investors in fossil-free generation require predictability and stability of revenues.*

Facilitate the development of **Power Purchase Agreements (PPAs)**

- Member States shall (1) **facilitate PPAs** to reach NECP objectives, (2) ensure that **instruments to cover default risk** (e.g. market-oriented guarantees) are available to customers facing entry barriers to PPA market, (3) allow bidders in RES tenders to **reserve part of the generation** for PPAs, (4) endeavour to make use of **evaluation criteria** to incentivise access to the PPA market for customers that face entry barriers

Two-way Contracts for Difference (CfDs) for public support for new investments

- Direct price support schemes for new investments shall take the form of a two-way CfD in: solar, wind, geothermal, hydro without reservoir and nuclear energy .
- CfDs shall redistribute revenues collected by the Member State to final customers, while keeping incentives to reduce electricity consumption

Improve liquidity of **forward markets**

- Create "virtual hubs" with regional reference prices.
- TSOs to issue "zone-to-hub" transmission rights for the following 3 years.

2. Flexibility services, transparency, offshore

Problem: *Increasing share of renewables needs to be balanced with non-fossil flexibility (such as demand response, storage) in order to achieve decarbonisation.*

Enhance non-fossil flexibility sources, such as demand response and storage

- NRAs shall issue a report on the **need for flexibility** in the electricity system every two years to achieve both security of supply and decarbonisation.
- On the basis of the report, Member States shall define **an indicative national objective** for demand side response and storage.
- MS may apply **support schemes** for available non-fossil flexibility capacity. Member States with capacity mechanisms shall first consider the promotion of the participation of non-fossil flexibility in such schemes.

Clarify the role of system operators

- **Peak shaving product:** TSOs may procure a peak shaving product to reduce electricity demand during peak hours
- **Transparency:** TSOs and DSOs to provide information about the availability of grid connection capacity, the status and treatment of the connection requests.
- **Dedicated metering:** System operators can use the data from dedicated metering devices for the observability and settlement of demand response and flexibility services.
- **Network tariffs:** Take into account operational costs in network tariffs and TSOs/DSOs remuneration, to incentivize the use of flexibility services.

2. Flexibility services, transparency, offshore

Create more opportunities for trading (of renewables and flexible sources)

- Allowing cross-border **intraday trading closer to real time (30 min)**
- Mandatory **sharing of liquidity** in the intraday market, also within a bidding zone

Accompany the offshore development

- **Transmission access guarantee:** offshore generation plant operators in an offshore bidding zone can be compensated if access to interconnected markets has been reduced

3. Better consumer protection and empowerment

Problem: *Energy crisis has exposed consumers to high and volatile electricity prices and market risks have been forced on consumers*

Protect consumers

- **Right to fixed price contracts** added to existing right to dynamic price contracts.
- **Hedging requirements on suppliers:** Suppliers should be properly hedged with long term contracts.
- **Supplier of last resort:** Member States should designate a supplier of last resort
- **Protection from disconnection** for vulnerable consumers
- **Retail price regulation:** Member States can apply regulated retail prices for households and SME consumers in the event of a crisis, incl. below costs.

Empower consumers

- **Energy sharing:** consumers should have the right to share renewable energy directly, without the need to create energy communities.
- **Right to multiple contracts:** customers can have more than one supplier on their premises, enabled with multiple meters for a single connection point
- **Better and clearer contractual information,** also for contract extension.

4. Better energy market monitoring and surveillance

Problem(s):

- 1. Gaps in REMIT data and lack of enforcement of reporting obligation on the EU level resulting in weakened and not abreast monitoring framework.*
- 2. Decentralised enforcement system based on national level investigations only (not efficient in more complex cross-border cases) resulting in insufficient market surveillance and oversight.*

Better data collection and market monitoring

- Adaptation of the scope of REMIT to current and evolving market circumstances
- Improving process for the collection of inside information and market transparency
- Enhance supervision of reporting parties and data sharing
- Enhance market transparency through an LNG price assessment and benchmark

Strengthening of investigation, harmonisation of fines to better protect against market abuse

- Stronger role for ACER in investigations of significant cross-border REMIT cases
- Harmonisation of fines set by regulatory authorities at national level

State of play

Council

- Revision of electricity market design: no general approach on the overall proposal
- Revision of REMIT: general approach reached on 19 June

European Parliament

- Revision of electricity market design: ITRE Committee adopted draft report on 19 July
- Revision of REMIT: ITRE Committee adopted draft report on 7 September
- EP Plenary tacit approval of mandates expected on 12 September

Thank you