From the implementation of emergency interventions to the review of market design: how two years of energy price crisis have changed the European electricity market

20/04/2023

The energy price crisis

Context and UE response: from orthodoxy…

Spring 2021-

- Supply-demand tension in Post-COVID recovery

Spain, first country where the crisis impacts public opinion due to a regulated tariff that is a direct pass-through of the spot price

The Iberian exception

1

13 October 2021

Communication "Tackling rising energy prices: a toolbox for action and support"

"EC Toolbox": Non-interventionist, orthodox measures

24 February 2022

Russia's invasion of Ukraine

2

8 March 2022

Outline of "REPowerEU": joint EU action for more affordable, secure and sustainable energy"

EC mentions windfall-profits for the first time
Reduce dependency on Russian gas, accelerate RES and energy efficiency
Fill gas storage

3

23 March 2022

Commission proposal to amend the Security of Gas Supply Regulation and a Communication "Security of supply and affordable energy prices: Options for immediate measures and preparing for next winter"

4

21 April 2022

Campaign by IEA and EC "Playing my part" with energy saving tips to help cutting the EU's reliance on Russian fuel

29 April 2022

ACER Final report

The energy price crisis

Context and UE response: … to intervention

7

20 July 2022

Commission proposal for **a Regulation on coordinated demand reduction measures for gas** and **communication "Save gas for a safe winter"**

6

27 June 2022

Adoption of the **Gas Storage Regulation** (EU 2022/1369)

5

18 May 2022

The Commission REPowerEU Plan to rapidly reduce dependence on Russian fossil fuels

Communication on **Short-term Market Interventions and Long-Term Improvements to the Electricity Market Design**

Gas supply diversification, accelerate energy efficiency and RES

UvdL: The market does not work, it must be reformed

8

26 July 2022

Energy Ministers agreement on the Regulation on coordinated demand reduction measures for gas

9

14 September 2022

Commission proposal for a new **Regulation on an emergency intervention to address high energy prices and reduce energy bills for EU citizens**

10

30 September 2022

Energy Ministers agreement on the Regulation on an emergency intervention to address high energy prices

11

18 October 2022

The Commission's additional proposals to fight high energy prices and ensure security of supply

Agosto 2022

Gas & electricity prices: record levels in 2022

EU-wide response

- Cap on market revenues for inframarginal generation: 180 €/MWh
- Solidarity tax on oil, gas and coal companies
- Joint gas purchases
- Market correction mechanisms

A legislative market design proposal is announced for 2023. EC non-paper suggests measures on existing capacity, cost-based remuneration

Some key topics

Is the marginal market a design choice?

The relevance of the spot market

Windfall profits

Do interventions distort the market?

Should interventions evolve into permanent design?

The market design reform

Radical proposals seem to be out of the picture

Wide agreement on:

- Preserving the **short term marginal market**
- Increase liquidity in **forward markets**
- Promote **long term contracts** (time horizons similar to those of generation projects)

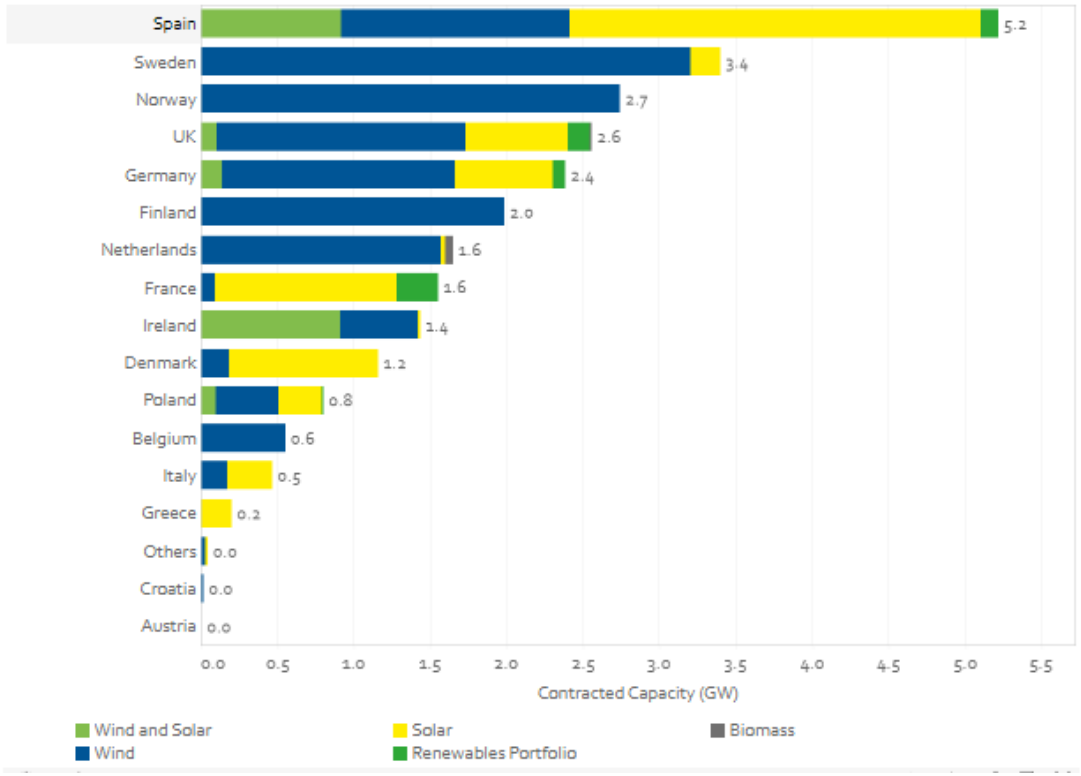
eurelectric

ACER
European Union Agency for the Cooperation of Energy Regulators

Different views regarding:

- **Extending the emergency interventions** and other **measures on existing generation capacity**
- Private contracting (**PPAs**) vs centralized/public contracting (**CfD auctions**)
- **Design and implementation of CfD** and similar mechanisms
- Increasing liquidity in forward markets: **virtual trading hubs**, more flexible **collateral requirements**
- Measures on retail market: from **regulated tariffs** to **affordability options**
- Measures on retailers: **product obligation, hedging requirements**

The challenge of PPAs



Fuente: Re-source

GW (2013-2022)

Remove barriers

- Legal restrictions
- Standardization
- Transparency
- Credit risk - guarantees

Limits

- Good for large consumers
- Difficult application to small consumers

Contracts for differences

De-risking new capacity

Centralized auctions

- Already exist in many countries

Settlement

- The expectation now: CfD price < market price
- The future: CfD price > market price

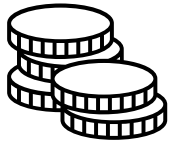
Design and implementation

- **Traditional: settled against the spot market**
  - Distorts dispatching
  - Removes liquidity from forward market
- **Improvements:**
  - Settle against forward market
  - Settle against theoretical profile instead of actual production
- Technologically neutral?

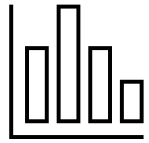
Settlement of the CfD

- Against all demand
  - Can distort hourly price signal: impact on electrolysers, storage, demand-side response
- Voluntarily among retailers/consumers
  - The gap between CfD duration and end-customer contracts
  - Central counterparty?
  - Obligations on retailers?

Increasing liquidity in forward markets



Collaterals

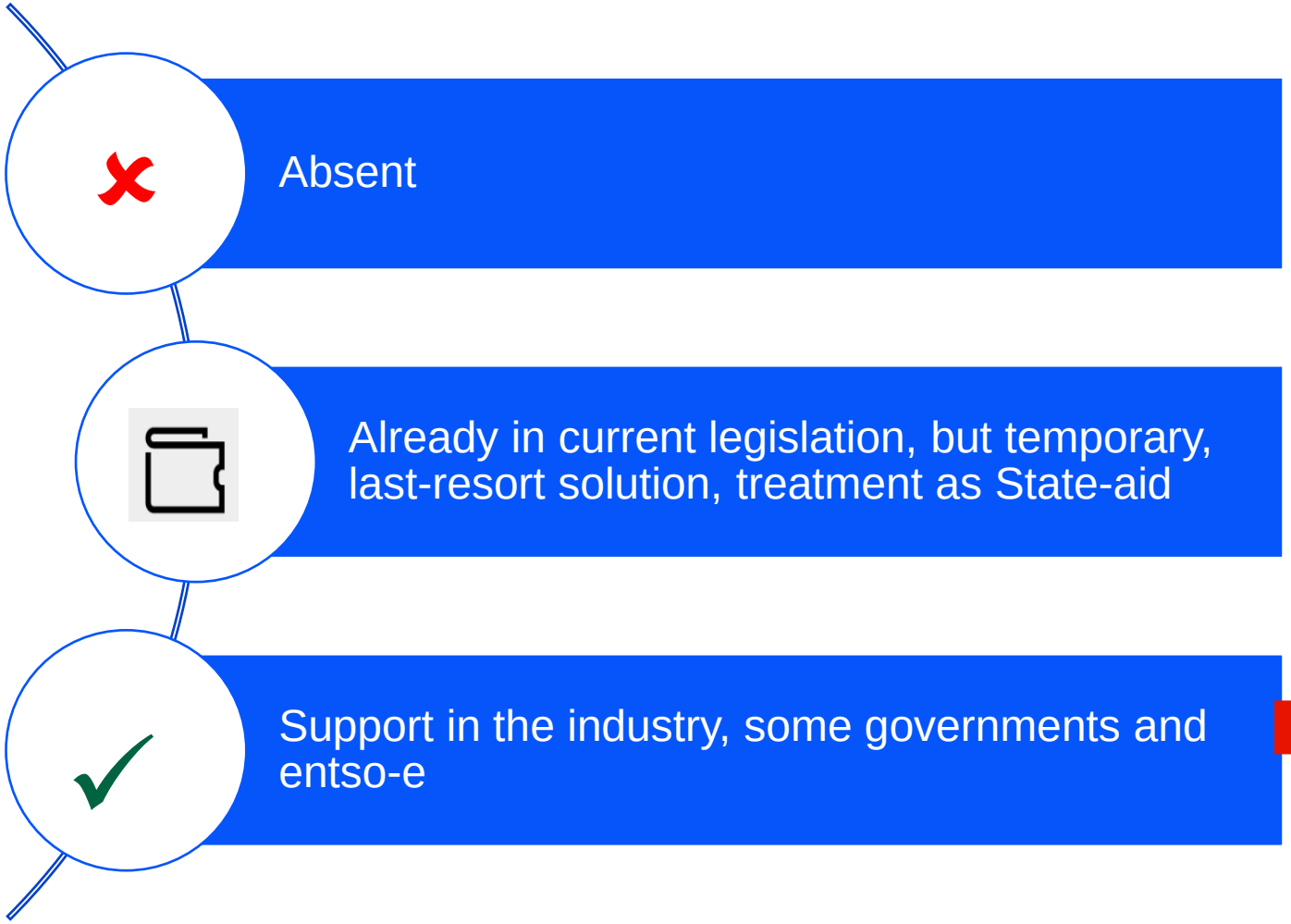


Auctioning long term transmission rights in the interconnections

Improve market supervision

Market making

Capacity markets



In this context, targeted improvements to the EU framework related to resource adequacy and in particular to Capacity Remuneration Mechanisms (CRMs) are required. Such improvements should aim at ***faster, clearer and more fit-for-purpose processes, facilitating the introduction of CRMs at national level while improving their consistency and coordination at regional/EU level****. In this context, the scope and approval process of the European Resource Adequacy Assessment should also be reviewed.* ***We strongly support the inclusion of these measures in the upcoming EU regulation.***

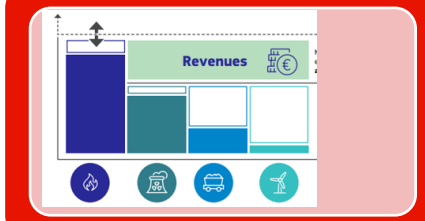
Retail market

Legal limits to long-term contracting

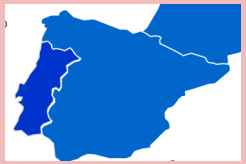
Improving retailers' resilience: from stress-tests to hedging obligations

Others: several meters/retailers, energy sharing

Interventions on existing capacity



Extend current caps



Extend the Iberian exception

Mandatory CfD at regulated prices