



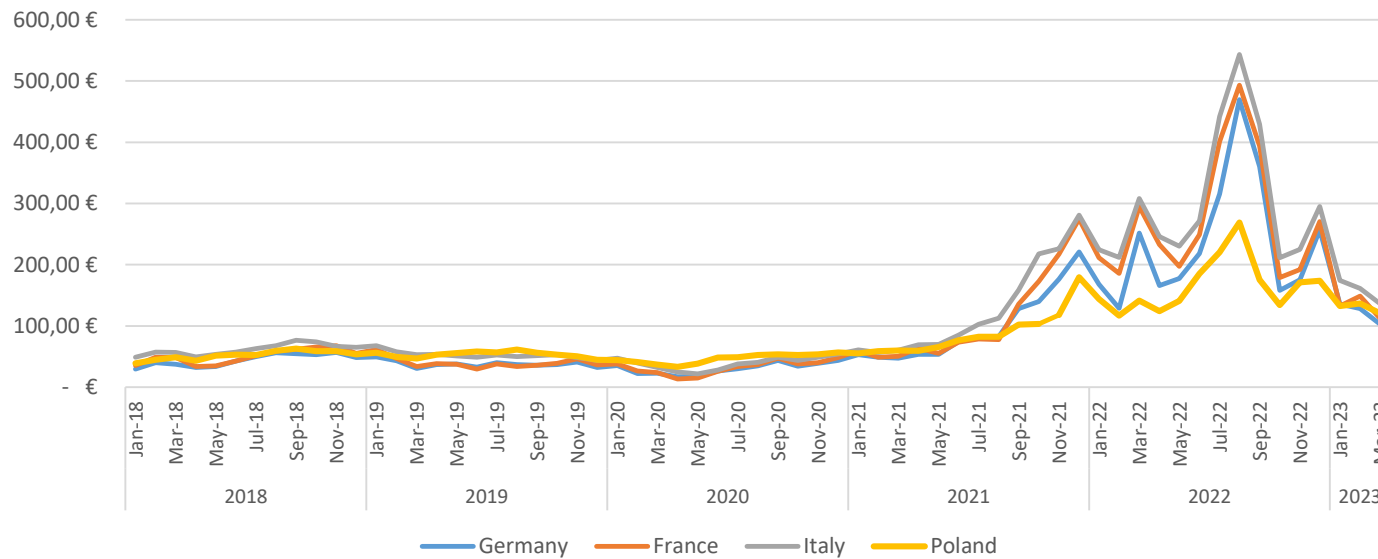
The implications of the proposed electricity market design reform on competition policy and notably State aid control

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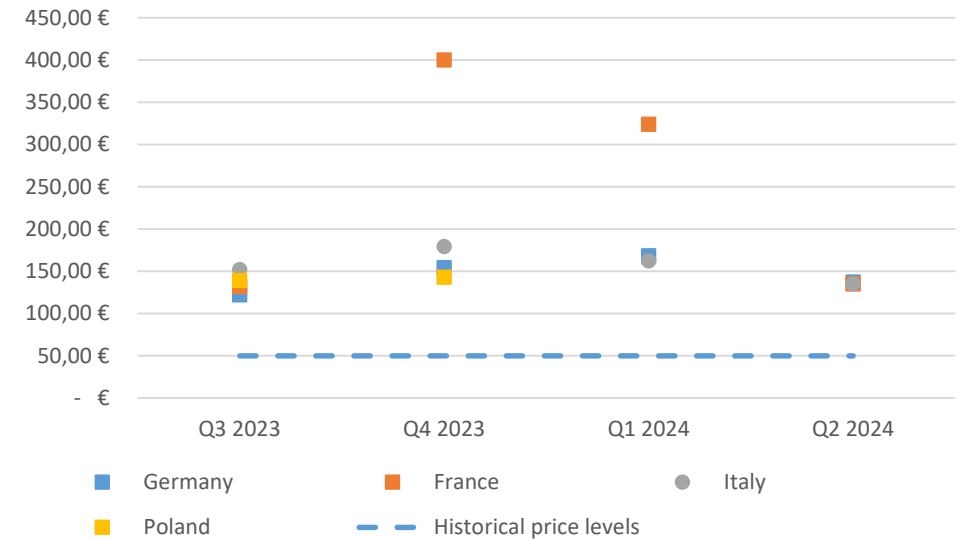
21 April 2023

An exceptional energy storm, with clouds still on the horizon

Wholesale electricity prices (in €/MWh)
from 2018 until now



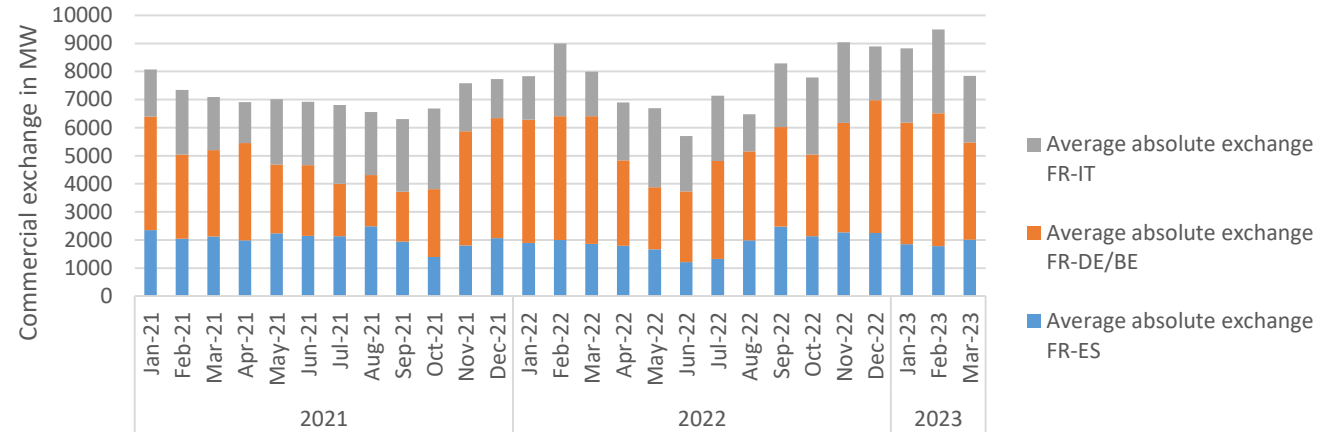
Quarterly forward prices in €/MWh



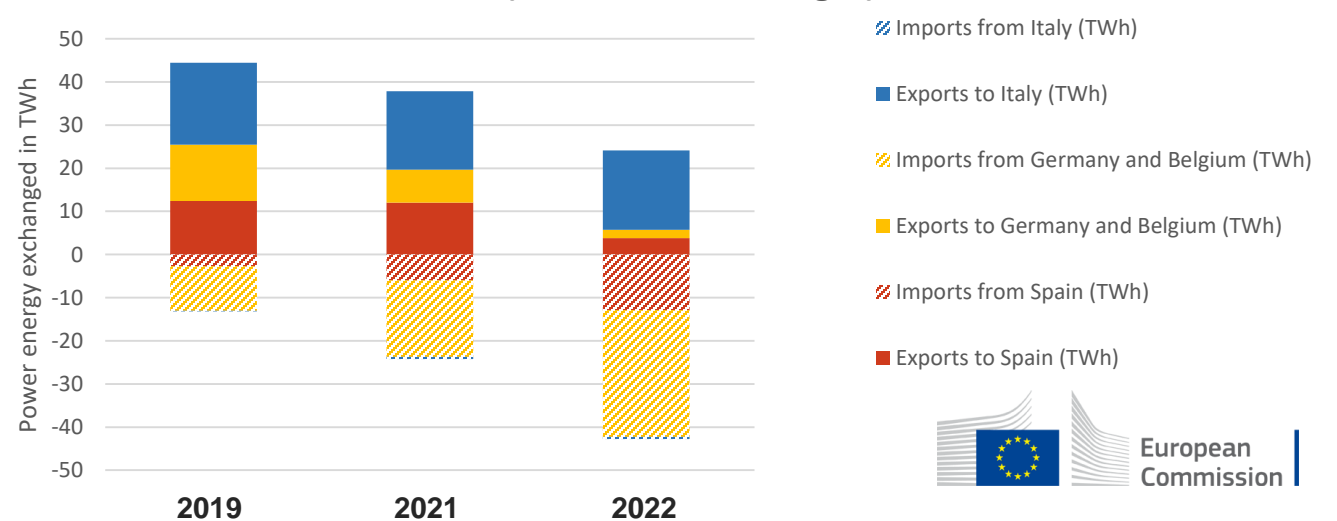
Efficient short-term markets should be safeguarded

- Short-term markets have played a key role in managing the energy crisis without major security of supply issue:
 - **enabled significant energy savings** when the system needed it the most, and
 - allowed to **efficiently exchange electricity within the European Union.**
- While the objective of this reform is to develop long-term tools to better protect electricity consumers against future fossil fuel crisis, the design of these **long-term contracts shall preserve short-term market incentives.**

Average electric exchanges between France and neighbouring MS (absolute values)



France electricity balance with neighbouring MS in 2019, 2021 and 2022 (commercial exchanges)



New market tools that will reduce the need for State aid

The proposal first supports the development of several **market-based products**:

Increasing the liquidity of forward markets
(development of virtual hubs and allocation of long term capacity)

Facilitating the uptake of market-based PPA
(removing regulatory barriers and developing price-based guarantee schemes)

Introducing peak-shaving products as a new ancillary service for Transmission System Operators

- In so far as these instruments are **market based and/or procured independently without state involvement and resources**, they may not fall within the scope of State Aid control.
- However, **additional revenues arising from the development of these market products shall be taken into account when assessing the necessity and the proportionality of an aid** (for example, to calculate the “*funding gap*” of an investment).

Accelerating the deployment of low-carbon generation, while hedging consumers against price volatility

- The EMD reform also calls for a wider use of instruments that have proven useful to hedge consumers against price volatility: **two-way contracts for difference (CfD)**.

2-way CfD =
min. guaranteed remuneration
+ limit to excess revenues for the generator

- **2-w CfDs as mandatory tool for direct price support schemes** contracted with mature renewable technologies.
- Consistent with the CEEAG §90: *“where there is significant uncertainty concerning future market developments related to a large part of the business case [...], limits to profitability and/or clawbacks [...] may be required to ensure proportionality.”*
- Guaranteeing the viability of LT investments while ensuring that excess revenues are **recovered and uniformly redistributed to customers on the basis of their electricity consumption**, will provide greater coherence in the approach to hedging consumers and would reduce the need for aid for energy intensive users, thereby enhancing a level playing field in the single market (*“avoidance of undue negative effects on competition and trade”*).

New provisions for non-fossil flexibilities, consistent with State aid practice

Article 19.f) of the draft electricity regulation introduces **provisions for non-fossil flexibilities (storage, demand response, etc.)**, consistent with the State Aid practice for security of supply under the CEEAG:

Necessity and proportionality

1

MS shall calculate their flexibility needs based on a cost-benefit analysis (methodology approved by ACER),

Proportionality

2

When market revenues are not sufficient to reach the level of the established flexibility needs, Member States shall investigate least distortive solutions (e.g. removing entry barriers of existing capacity mechanism).

Proportionality and avoidance of undue negative effects on competition and trade

3

Member States may set objective technical criteria to best address the identified flexibility needs, including environmental criteria, without discrimination with respect to any non-fossil technology complying with such criteria.

Avoidance of undue negative effects on competition and trade

4

Several mandatory design features are introduced to ensure a minimum level of consistency with other security of supply measures (e.g. mandatory cross-border participation)

Protecting European consumers against future price crisis

- Finally, Article 66.a) of the draft Regulation allows Member State to introduce **regulated tariffs below costs for households, microenterprises and SME in crisis situations.**
- The existence of a crisis situation is established by the European Commission based on objective criteria set in the Regulation.
- Regulated tariffs below costs are an extreme emergency remedy whose availability may provide predictability with respect to the protection of the consumers most in need in case of a price crisis
- **Such support schemes remain temporary and targeted and upon State Aid control to maintain a level playing field and avoid subsidy races,** which is even more important in crisis situation (e.g. Temporary framework).

Thank you



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