

#MarketDesign

eurelectric

Electricity Market

MARKET DESIGN FOR NET ZERO

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Vienna Forum on European Energy Law, 20 April 2023

Presentation Outline

In the next 10 minutes, I will cover the following;

- 1. The Background**— why we are reforming the market design and what is the process.
- 2. What we can improve**— Changes that will make our energy system resilient and ready for net zero
- 3. Assessing Commission's proposal**— Elements we like and elements we think can be improved



Presentation Outline

In the next 10 minutes, I will cover the following;

- 1. Who is Eurelectric?**
- 2. The Challenge** – why market design needs to facilitate the colossal level of investment needed to reach net zero
- 3. Learning from the Crisis**– What we have learned from the energy crisis and how can we make the system more resilient
- 4. What we can improve**– Changes that will make our energy system resilient and ready for net zero
- 5. Assessing Commission's proposal**– Elements we like and elements we think can be improved



1. Who is Eurelectric?

34 National associations

32 European countries

+3500 companies

35 Business members

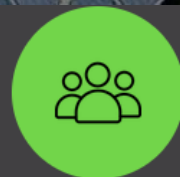
The Union of the Electricity Industry - Eurelectric is the

1000 sector association which represents the common interests of the electricity

industry at pan-European level, plus its affiliates and associates on several other continents

Our mission is to lead Europe's energy transition with clean electricity

Commitment towards our members



Provide effective representation for the industry in public affairs



Ensure that electricity-based solutions have access to funding and financing across Europe



Communicate the benefits of clean electricity throughout our media channels

Our Values

Societal engagement

Through electrification to contribute to job creation, air quality, energy savings, customer convenience and reduced dependency on imported fuels

Climate leadership

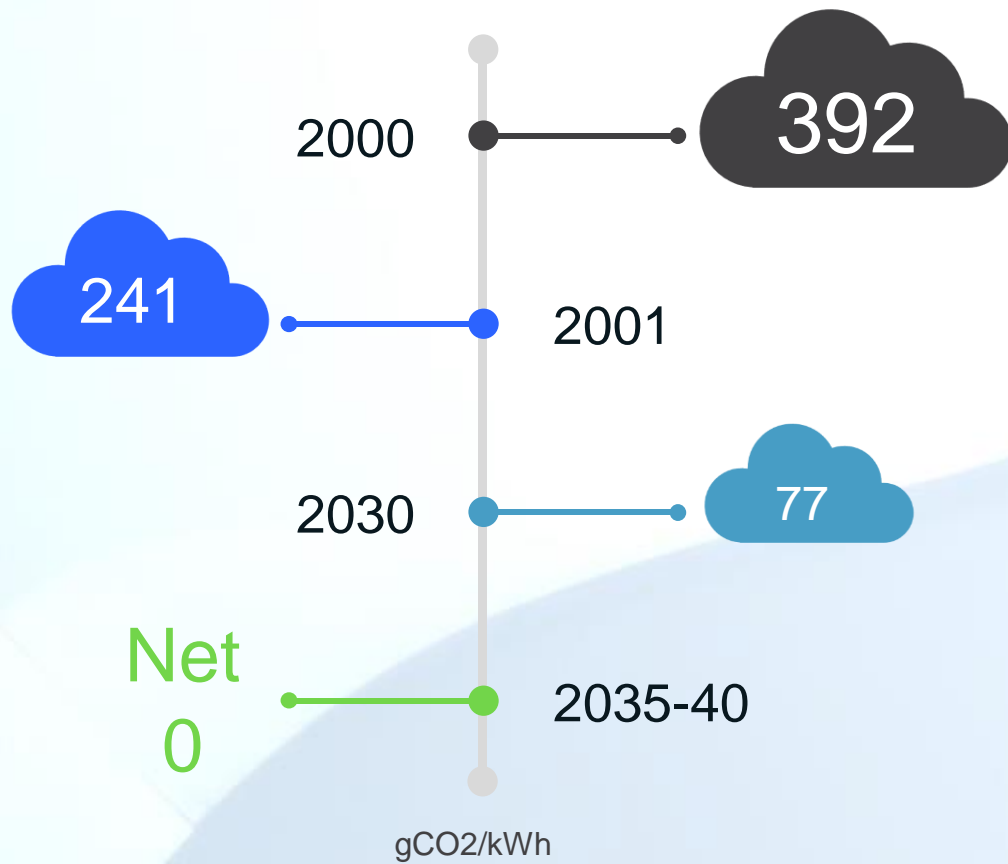
Through commitment, innovation and proactiveness in driving the decarbonisation & electrification agenda

Transparency

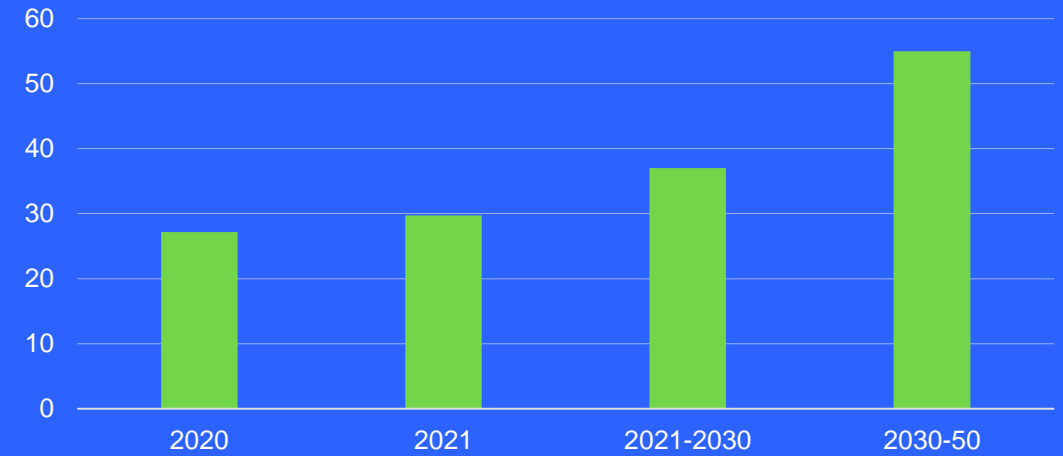
We are a signatory of the [EU Transparency Register](#). All our activities can be accessed in our [papers and letters](#) and are reported in our [advocacy meetings](#) register.

2. The SCALE of the change

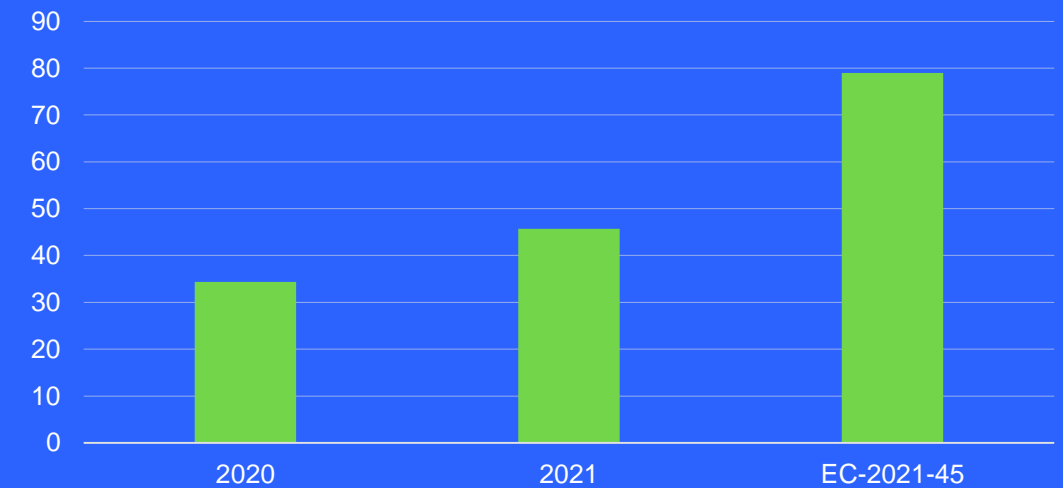
Speedy decarbonisation, colossal investment in electricity



Investments in distribution grids in EU-27
(billion €)



Power generation investments in EU27
(billion € 2021)



The SCALE of the challenge

Massive electrification of end-use sectors, with electricity's share more than doubling in size

A dramatic change by 2050

Electricity to represent 60-70% of final energy demand



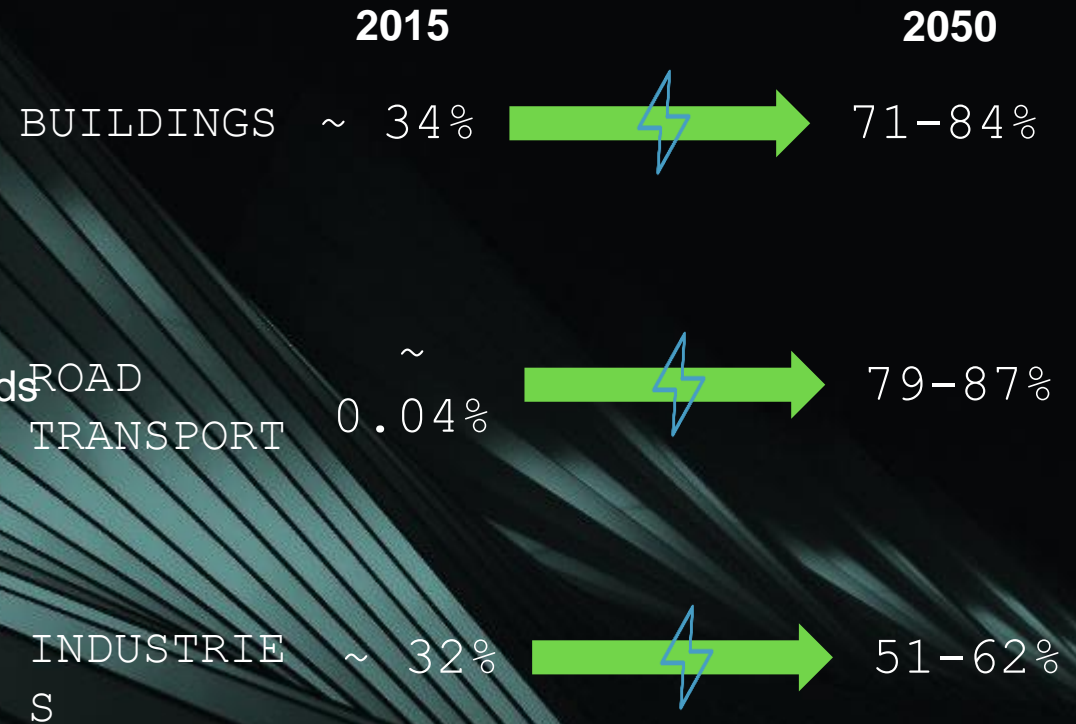
200 million heat pumps and decarbonised district heating will be brought to European buildings



220 M passenger EVs will be on European roads



74% of light industries will be electrified.
For heavy industries, the figure will reach 25%.



Share of electricity in the final energy demand

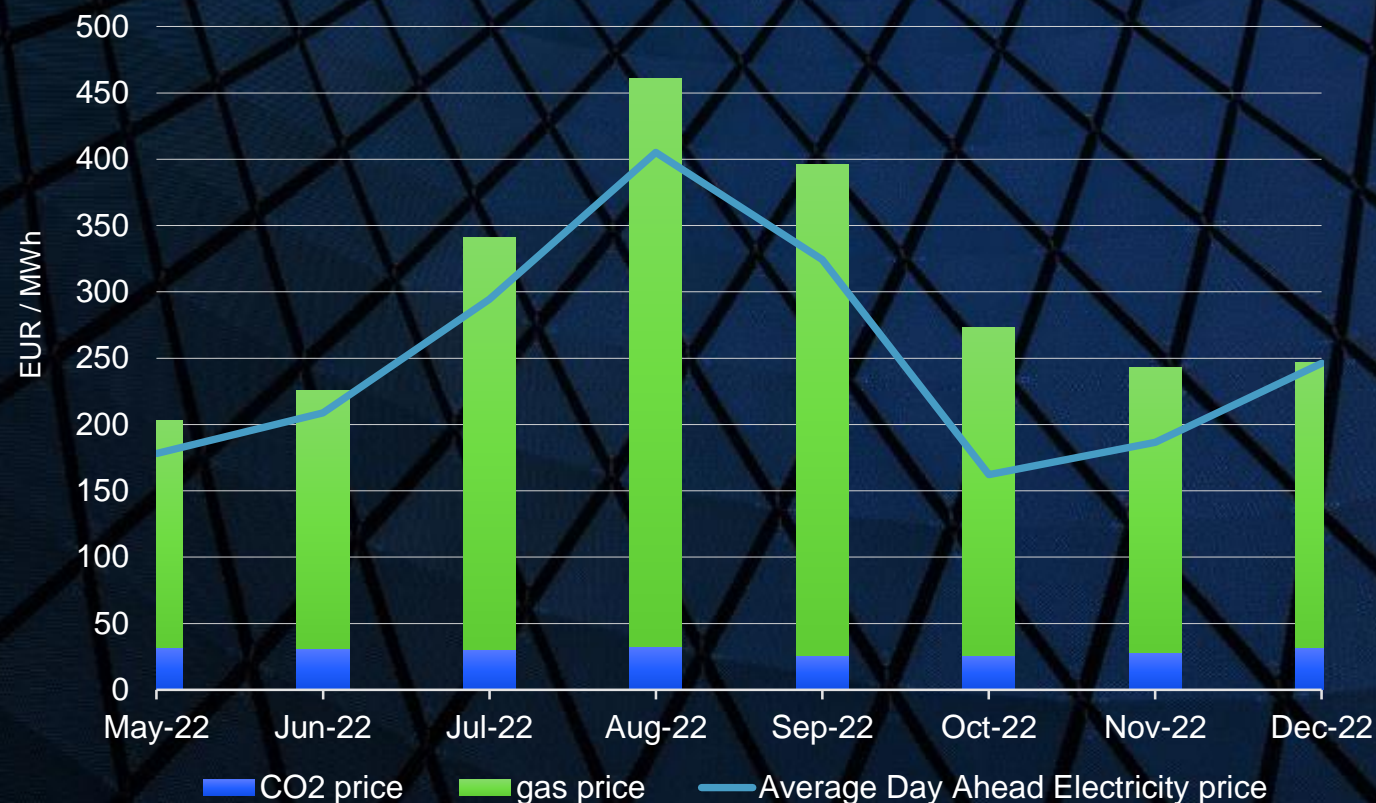


3. Learning from the crisis: what can be further improved

Learning from the crises – the vulnerabilities and improvement needed

- Short-term markets are **exposed to the extreme price fluctuations** of imported fossil fuels.
- **Liquidity in the forward market** is necessary to hedge against spot market fluctuations

EU average: gas price effect on electricity prices



Our key message for today

The primary focus of the reform should be on further developing long-term markets

In reforming Europe's market design we need to:



Preserve what works: the EU Internal Energy Market based on marginal pricing, & its key features & **Implement current legislation (CEP)**



Develop a long-term market to; 1) protect customers against excessive price volatility by offering them more choice and 2) promote the colossal level of investment needed.

Strong long-term markets will be a win—win-win for:



CUSTOMERS

= more competitive and predictable prices with less fluctuations



INVESTMENT

S
= more competitive and predictable prices with less fluctuations



SECURITY OF SUPPLY

= more competitive and predictable prices with less fluctuations



4. What can we IMPROVE?

How to make the electricity system ready for the net 0

1



+ Customers choice

A better choice of short- and long-term products.

Access to supply offers based on risk profile and individual needs.
FOR MORE PRICE STABILITY

2



+ Long-term instruments

Forward hedging, voluntary PPAs and CfDs, all have a role to play.

FOR MORE POSITIVE INVESTMENT SIGNALS

3



+ Manageable financial rules

High collateral requirements reduce liquidity in forward markets.

We must widen the types of non-cash collaterals.
FOR MORE LIQUIDITY IN FORWARD MARKETS

4



+ Investments in grids

Distribution grids are the backbone of a decentralised and decarbonised system.

FOR MORE RENEWABLE & DEMAND RESPONSE

5



+ Flexibility & storage

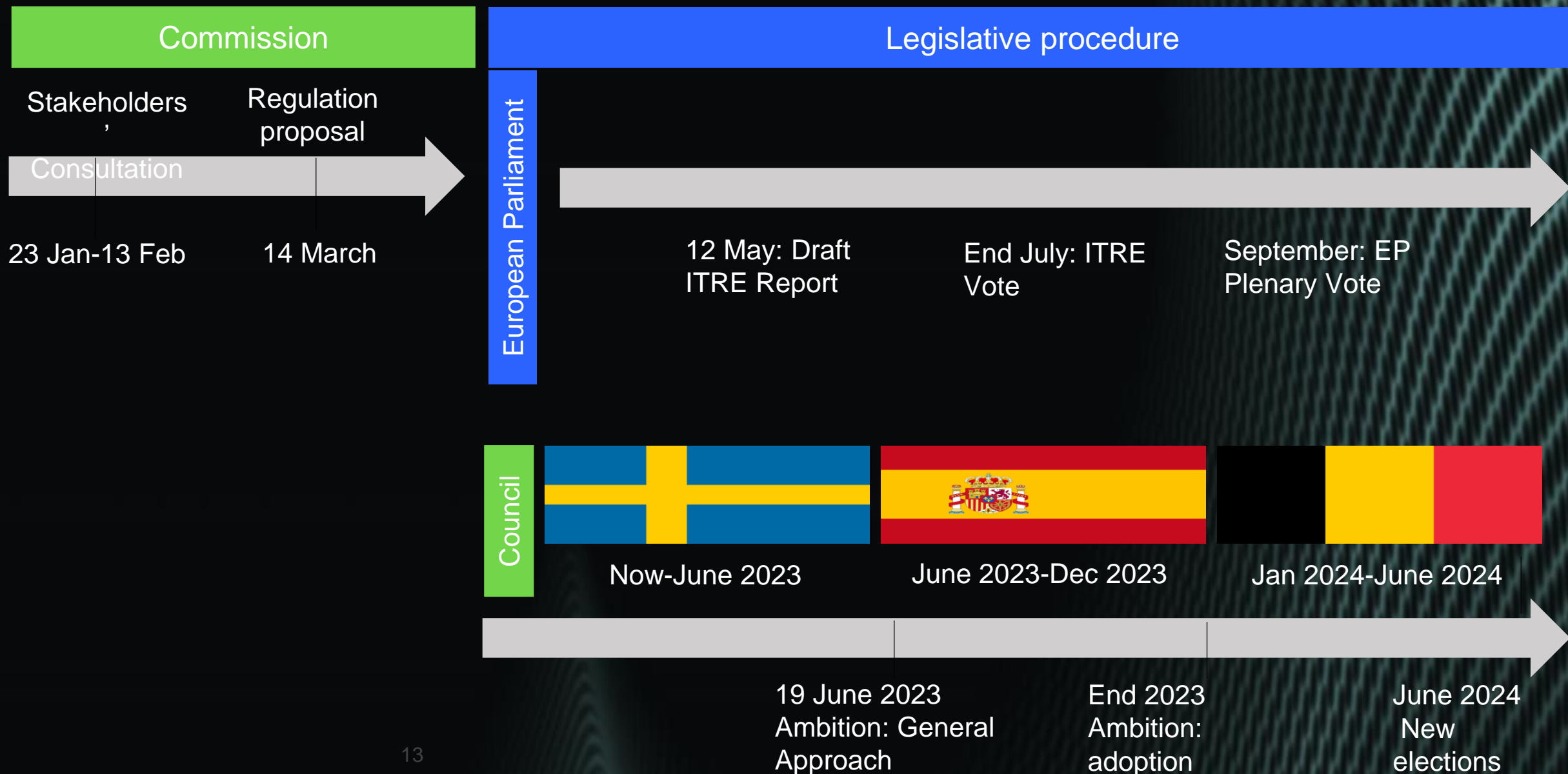
Proper incentives will promote flexibility, storage services & assets.

FOR AN EFFICIENT USE OF RENEWABLE ENERGY



5. Assessing the Commission's Proposal

Market design review – EU institutional timeline



Files assignments European Parliament

EMD review



Maria da Graça CARVALHO [PT]



Nicolás GONZÁLEZ CASARES [ES]



Morten PETERSE N [DK]



Michael BLOSS [DE]



Paolo BORCHIA [IT]



Zdzisław KRASNODEBSKI [PL]



Marina MESURE [FR]

REMIT review



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Claudia GAMON [AT]



Jakob G. DALUND E [SE]



Paolo BORCHIA [IT]



Zdzisław KRASNODEBSKI [PL]



Marina MESURE [FR]

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Our assessment on the European Commission's proposal

Retaining merit-order and marginal pricing across wholesale markets

1

Focus on forward markets through enhanced hedging and contracting

2

No mandatory requirement for two-way CfDs

3

No extension or institutionalisation of revenue limitation for inframarginal technologies

4

Promote anticipatory investment in grid tariff design

5



Hedging obligation on suppliers: Stress tests & reporting requirements through licencing

Regional virtual trading hubs: Non-tested solution with lengthy implementation time

Energy Sharing: Ensure level playing field with traditional supply to ensure customers protection

Flexibility/peak shaving: no technology-neutral & market-based approach

Fail to properly address massive grid investment challenge: ensure proper grid tariff design



Thank you for
your attention -
any questions ?

Eurelectric's views & proposals

		Our reaction	Our proposed way forward
1	Forward/PPAs/CfDs	<ul style="list-style-type: none">If well designed, forward, PPAs & CfDs are complementary hedging tools to support needed investments & protect customers against short-term volatility depending on their risk profile & needsGood to incentivize MS to remove barriers in LT markets & contracts and go for voluntary implementation	<ul style="list-style-type: none">For existing assets: no retroactive changes and/or mandatory implementationFor new assets: key to maintain contractual innovationSettlement of CFDs should be left to the discretion of MS: targeted to vulnerable customers and/or to finance the energy transition
2	Virtual Hubs	<ul style="list-style-type: none">Theoretical, complex, lengthy to implement (5-10 years)Fail to address immediate liquidity issues (low volumes, collateral constraints) & risky for both TSOs and market participantsSuch set-up is already possible to implement - Too premature as target model as part of the primary legislation	<ul style="list-style-type: none">Delete provision – address through the revision of Forward Capacity Allocation Guidelines to allow proper impact assessmentGo for more practical evolutions of the current set-up (more frequent auctions, higher volumes, longer-term products at least up to 3 years)
3	Hedging Obligations	<ul style="list-style-type: none">Risks impacting retail competition and hence customers choice by regulating particular hedging strategies and tying them to particular productsRisks of locking in high prices depending on when the hedging is done.	<ul style="list-style-type: none">Shift this from obligations & normalisation to robustness checks & reporting obligations to be completed by the regulatorMaintain a market-based approach to allow for supply offers innovations based on demandIf supply offer obligation are maintained, pair with possibility for suppliers to charge cost-reflective early termination fees
4	Grid Investment	<ul style="list-style-type: none">Not enough incentives for anticipatory investments needed to address the massive grid investment & digitalisation challenge required to electrify further.	<ul style="list-style-type: none">Ensure that network tariff design provide the right incentives to SOsOptimise the incentives and remuneration schemes between CAPEX and OPEX to allow a timely recognition of traditional investments in physical networks and adequate returns, with a flexible reflection of operational costs.
5	Energy Sharing	<ul style="list-style-type: none">Expands energy sharing beyond the existing framework of P2P and energy communitiesIf not properly regulated, it poses a risk to customers, suppliers and system operators	<ul style="list-style-type: none">Ensure derogations to traditional supply are not normalised to ensure adequate customer protectionClarify the responsibility of payment for associated taxes, levies, and network charges.Ensure the local nature of energy sharing is preserved while leaving flexibility to the MS to decide proximity requirement

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Key policy asks for a market fit for the net 0

EMPOWER CONSUMERS

1. Accelerate smart meter deployment in all Member States
2. Adopt guidelines for flexible resilience to stress-test suppliers
3. Properly implement articles 13, 15, 17 & 32 of the Electricity Directive

INVEST IN GENERATION

1. Ease collateral requirements in forward markets
2. Address national barriers for PPAs and other long-term contracts
3. Provide dynamic guidelines for CfD design

STRENGTHEN RESILIENCE

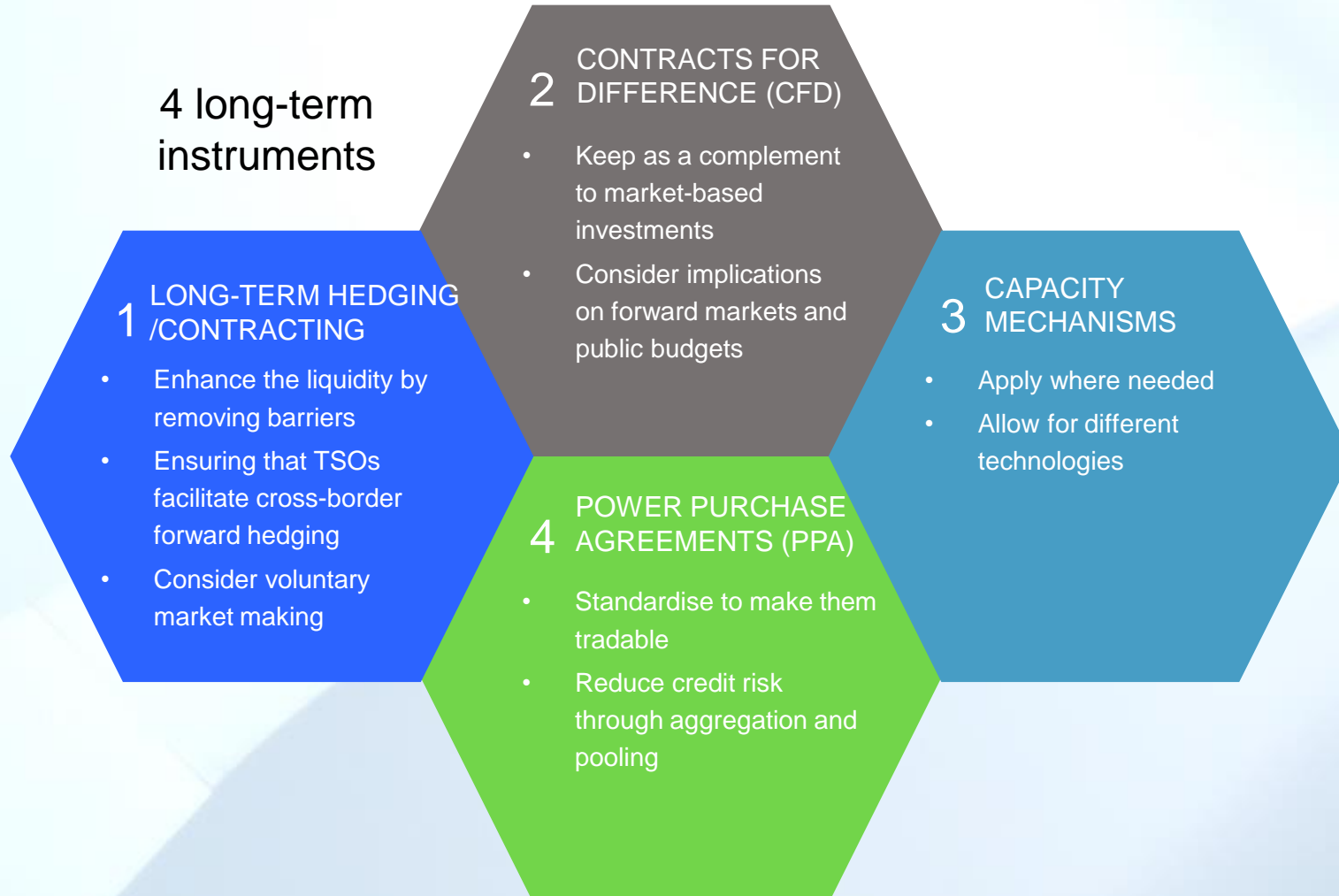
1. Improve regulation on capacity mechanisms
2. Enable cross-border hedging
3. Adjust remuneration to incentivise digitalisation and automation



Long-term contracts

Key for the build-out and mitigating price volatility

By 2030, investment needs are colossal: +700 GW new RES plus the renewal of existing capacity, build out of storage and demand response. Long-term instruments are a “must have” to deliver at such scale.



YES TO CFDS... BUT WITH CAUTION

- They should be used on a voluntary basis only
- There is no ‘one-size-fits-all’ CfD – an adequate design matters
- A massive use of CfDs would raise questions on how to pass costs to customers and hinder liquidity on forward markets

