

EFET deplores European Commission approval of Iberian wholesale electricity price control measures and warns against unintended effects of this decision

On 26 April 2022, the Spanish and Portuguese governments announced the conclusion of an agreement with the European Commission on a proposal to control wholesale electricity prices in the Iberian Peninsula. Stakeholders have not been involved in this discussion and the details of the agreement are yet to be published, seven days after this announcement.

EFET understands the desire of Iberian authorities to take measures to limit the effects of high wholesale energy price levels on their vulnerable consumers.

However, the intervention in wholesale electricity prices foreseen by the Iberian governments threatens EU and Iberian decarbonisation objectives and raises concerns as to the future security and affordability of gas supply in the region. It already has a damaging effect on the Iberian forward electricity market, and its potential to disconnect the Iberian electricity market from the rest of Europe sends a dangerous signal in terms of fragmentation of the Internal Energy Market.

As the exact details of the measure are still unknown, we call on the European Commission and Iberian authorities to provide full transparency on their agreement. We also urge Iberian authorities to change their course of action and focus on providing targeted financial help to vulnerable consumers exposed to high prices.

According to what is known of the proposal, Iberian electricity generators using gas and coal-fired plants would be forced to adjust their bids using a fictive “shadow price” for natural gas of 40€ to an average 50€/MWh. A compensation instrument would be developed for electricity buyers (i.e. consumers) to compensate the difference between the regulated “shadow price” generators have to use and the actual price at which they procured gas on the wholesale market. This would apply for a period of 12 months.

This Iberian proposal have us seriously concerned with regard to:

- **Increase in greenhouse gas emissions:** regulating the cost of gas in electricity generation would prioritise gas-fired electricity production over less carbon-intensive forms of electricity generation – *this would increase greenhouse gas emissions in Iberia in the medium term, and deter investments in low-carbon and carbon-free technologies in the long term*
- **Possible threats to security of gas supply in Iberia:** artificially pushing gas-fired electricity generation up will increase demand for natural gas in Iberia – *this would make the supply of gas even tighter in the region, and possibly threaten security of gas supply at a critical moment on global markets*

- **Distortions of competition and redistributive effects between gas consumers:** higher demand for natural gas in power generation will make gas more expensive for industrial consumers of gas – *this would threaten affordability of gas supply for businesses and possibly require greater levels of curtailment*
- **Cross-subsidisation among electricity consumers:** the compensation mechanism penalises consumers who hedged their supply or committed to fixed-price contract, to the benefit of those who took the risk to be exposed to wholesale prices volatility (including via the Spanish PVPC) – *this would turn past hedging into a disadvantage and deter prudent behaviour of risk management in the future*
- **Threat to the Iberian forward electricity market:** the announcement of the Iberian proposal has already resulted in liquidity losses on the Iberian forward market. The absence of transparency on the proposal and the constant risk of further regulatory intervention in Iberia is destroying market confidence – *this is undermining the capacity of market participants to hedge their risks and protect consumers against energy price volatility*
- **Reduction in incentives to save energy:** artificially lowering the price of electricity reduces the incentive on consumers to save electricity or take steps to improve energy efficiency – *this would push electricity consumption up (and gas to produce it) at a moment when energy savings should be a priority*
- **Disconnection of Iberian electricity markets from the rest of Europe:** the prospect of a change of rules in the Iberian day-ahead auction has created significant uncertainty as to the viability of pre-existing long-term contracts. Severing Iberian electricity prices from market fundamentals also risks distorting cross-border transactions and flows in the day-ahead market and isolate the Iberian Peninsula in intraday and balancing – *this would isolate the Iberian electricity markets at a moment when market integration and cross-border trade is more needed than ever to address the challenges of affordability and security of energy supply; it also jeopardises the future of the Internal Energy Market itself*

We are conscious that European citizens and businesses, in Iberia and elsewhere, have to bear the consequences of an unprecedented period of high volatility and price levels since last summer. However, European and national authorities should address the current challenges of affordability and security supply with solutions that preserve price signals in the wholesale electricity and gas markets.

Along the lines of the April 2022 Assessment of EU wholesale electricity market design of ACER, we urge decision makers to pursue the path of least distortion to wholesale energy markets. Hence, direct support via reduction of taxes on energy bills and targeted help (vouchers, social benefits) should be the focus of Member States wishing to help and protect vulnerable customers exposed to market prices.