

How can we make wholesale power markets work better?

Evolution not revolution

Europe has spent 25 years and three packages of legislation building a competitive and well-functioning electricity market. That market has enhanced competition, driven innovation, steered investment and benefitted consumers.

While it continues to work well, there are a set of targeted changes which can ensure it delivers even more effectively on the three objectives it was built for: security of supply, sustainability and affordability of electricity supply. The European Federation of Energy Traders (EFET) outlines those changes in this short paper.



1 Improve short term markets

Energy markets adapt fast to changing conditions → Changes in weather, outages in plants or transmission lines and fluctuations in demand happen constantly. These changes are reflected in wholesale electricity markets by the price. Prices change to encourage more or less electricity to be produced or consumed – so the system stays in balance.

The more time there is to manage this price risk, the better. While electricity markets have historically managed seasonal risk quite effectively with forward and long-term contracts, the amount of renewable electricity production means that more short-term changes need to be managed – which is why short-term markets are getting more important. Simple ways to make them even more effective exist.

Shorten imbalance settlement periods and market time units



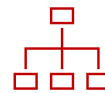
The closer to delivery parties can trade, the better risks can be managed. Shorter imbalance settlement periods and market time units help.

Make intraday capacity available sooner



Our intraday market isn't as effective as it could be as it is stopped too often & cross-border transmission capacity is available too late.

Enable portfolio bidding



To enable producers to use the flexibility of their assets more effectively and let smaller players have more contracting options.

The benefits of the Internal Energy Market

The Internal Energy Market has been 25 years in the making. It is the biggest and arguably best performing energy market in the world.

ACER (2021) → Together, Day-Ahead and Intraday Market Coupling deliver more than 1 billion Euros of benefits to end-consumers per year.

Booz & Co (2013) → Integrating the market delivers the largest benefits, in the range of €12.5bn to €40bn per year by 2030.



2 Use our resources efficiently

There's strength in pooling resources → The key benefit of a European market is that resources can be shared and the system can be more efficient and more resilient as a result. The whole is greater than the sum of its parts!

Price signals are crucial to showing where power is needed most, and infrastructure is key to making sure it gets there. Too often in Europe we don't make use of all the capacity we have, we haven't removed all the barriers to trade and we don't invest quickly enough in getting rid of bottlenecks.

Use the capacity we have to the fullest



Maximising cross-border transmission capacity would help consumers.

Deliver new infrastructure in time where needed



We need strict timelines and incentives for resolving bottlenecks.

Use congestion income to expand capacity



And the biggest bottlenecks to be targeted first using congestion income.

3 Make it easier to contract long-term

Hedging smooths consumer prices → Competitive, liquid and well-regulated wholesale electricity markets are vital to managing risks. Companies' hedging activities help them manage volatility and smooth out prices for end-consumers. These markets would work better if we aligned on a simple design – for transmission rights in particular.

We can further remove risk and increase competition and liquidity by making it easier to strike PPAs. These long-term contracts allow renewable energy producers and businesses to better manage their risk.

Develop standard PPAs



To allow corporates and renewables to contract more easily. EFET offers a free PPA to help this.

Issue long-term rights at all European borders



A single system of long-term transmission rights would enable cross-border hedging across Europe.

Make capacity available long before delivery



By having TSOs issue long-term transmission rights up to 5 years before delivery.

4 Get governance right

We have a truly European system → Our system is too often managed as a collection of national systems. Better cooperation between grid operators – at transmission and distribution level – and between the operators of electricity, gas and hydrogen markets – supported by much greater volumes of data – is key.

To unlock the vast volumes of renewable energy available offshore – which is crucial to our decarbonisation targets – we will need a single set of rules that transcend national borders.

Focus on offshore networks



They will be key to attain our net-zero target and can serve as a blueprint for a barrier-free market.

Enhance SO cooperation – in electricity & beyond



Coordinating the use of electricity, gas and transport is crucial to use our resources more efficiently.

Ensure transparency at all levels



Make sure SO activities meet the highest transparency standards.

5 Coordinated planning & policy

Coordination is key → Europe's challenge is to decarbonise the entire economy at least cost. We cannot afford to think in silos. We need to think across energy, transport, industrial policy and beyond to develop a sustainable system – with market prices allowing efficient decisions to be made across energy carriers.

Decarbonisation needs to be led by a strong, expanded ETS price, with wider renewable and low-carbon energy promotion policies complementing that signal. This signal should be coherent across energy carriers, such as renewable electricity, renewable gas, hydrogen, etc.

Sector integration



Market signals will allow more efficient decisions across energy carriers.

System Planning



Across borders and across energy carriers to optimise infrastructure.

Subsidy design



Aligning policies across borders will reduce cost and increase effectiveness.

Policy Consistency



Between national and European, and between energy and climate policy

6 Help those who need it

Energy poverty is a real problem → We must maintain support for an energy transition and be willing to help those consumers who are vulnerable. But short-term protection for those who need it shouldn't come at the expense of higher long-term costs for all.

We need a debate on the way the costs of subsidies are passed through energy bills, we need to build on the European Commission's toolbox and RepowerEU Communication – taking firm action where a national approach is contrary to European law or damaging to investor confidence – and we need to be willing to use higher tax receipts or revenues from auctions for carbon permits to help those who need it most.

Consider energy taxes



Should taxes and levies go via energy bills or general taxation?

Support consumers without distorting markets



Building from the Commission's Toolbox and helping those who need it.

Use revenues from the ETS



Higher EUA revenues can fund social action.