

EFET views on European electricity market design

A reaction to the European Commission consultation

Brussels, 23 February 2023 - The European energy system has been under stress since mid-2021, a situation exacerbated by the supply crisis following the invasion of Ukraine. The European Commission consultation on electricity market design is a good opportunity to reflect on the lessons of 20 years of European integration of energy markets and systems, and on our expectations for the future.

At the European Federation of Energy Traders (EFET), we believe that the pillars which have made that framework so effective – cost-efficiency, European integration, competition – should remain and be reinforced. So that electricity markets can continue supplying decarbonised, affordable, and secure electricity to consumers in the world of tomorrow.

1. Decarbonising the electricity sector efficiently

Our main challenge over the decades to come is, and will remain, the fight against climate change. Reaching the 55% carbon emissions reduction target by 2030 and achieving a carbon neutral economy by 2050 will necessitate a huge contribution of the electricity sector. Our recommendations to stay on track with these targets are as follows:

- **Broaden and strengthen the EU Emissions Trading Scheme (ETS):** a cornerstone of European decarbonization efforts, the EU ETS has contributed significantly to carbon emission reductions in the sectors it covers (-43% between 2005 and 2020). By putting a price on carbon emissions, it makes investments in renewable electricity production (RES-E) and other low/zero carbon technologies more attractive. Its role should be strengthened by **expanding its coverage to more sectors** (as currently envisioned for heat and transport) and **broadening its geographical scope** (linking the EU ETS with equally ambitious carbon markets).
- **Attract more renewables:** Thanks to the massive roll-out of RES-E capacity over the past 20 years, RES-E represented 37,5% of total electricity generation in 2021. However, much more is needed to reach the 60+% objective by 2030. We support:
 - I. **Harnessing the power of the private sector to finance RES-E projects via commercial PPAs:** demand for PPAs has been growing quickly in recent years and we should build on that momentum. Commercial contracts can underpin new investment in renewables, reducing the need for public financial support. They can also offer an alternative means for revenue stabilisation for existing installations. For consumers, they offer predictability of costs and a hedge against price volatility.
 - II. **Ensuring guarantees of origin (GoOs) are systematically issued to all renewable electricity producers:** GoOs are the tool for producers to show that energy is renewable, and for consumers to trust this. Issuing GoOs to all renewable energy producers is essential for the growth of PPAs and will help to reduce reliance on public financing for the further uptake of renewables.

- **Protect the vulnerable:** equitable access to electricity means that consumers in need should receive help in times of high prices. This starts with **clear EU criteria to identify vulnerable consumers** and tackle energy poverty. Regulated tariffs should be reserved for vulnerable consumers, in conjunction with social benefits they may receive. **Seeking to reduce prices for everyone through inframarginal revenue caps or mandatory contracts for differences (CfDs) will not prioritise those most in need** – rather, it risks erasing signals for demand reduction and optimisation, and would deter prudent hedging behaviour in the market.

3. Securing our energy supply in electricity and beyond

As we transition towards more energy independence, good planning and governance will be essential, together with an efficient electricity market that proved its robustness this year. Our recommendations to safeguard our supply of energy are as follows:

- **Plan rather than react:** we need a plan to adjust demand in case of supply shocks. To create a safeguard, the **emergency demand optimisation measures of this winter could be put into EU legislation**, accompanied with a trigger level for when to activate them. Good planning means supply diversification, and it should avoid **unexpected interventions such as price control measures or inframarginal revenue caps**, some of which have worsened our supply situation.
- **Use the reform to make markets work even more efficiently:** electricity markets are designed to efficiently allocate resources, even when they are scarce. We see an opportunity to make those markets do this even more effectively by:
 - I. **Stimulating risk hedging in forward markets:** forward trading allows producers and consumers to hedge price and volume fluctuations. Effective forward markets need stable rules and sufficient liquidity. They can be improved by using the liquidity of existing hubs and increasing the volumes and maturity of transmission rights, rather than developing uncertain virtual hubs. Credit guarantees could also be developed to help all to cover risks over longer time periods.
 - II. **Letting spot markets keep the system in balance:** day-ahead and intraday markets have reached an unprecedented level of sophistication. Optimising the use of transmission capacity and pooling energy resources through market coupling delivers higher security and lower costs to customers on a daily basis. Spot markets, intraday in particular, can be further improved to optimise the system close to delivery, to adapt to the intermittency of renewables and to accompany the development of flexible assets and services.
 - III. **Making the best use of interconnectors:** the larger and more connected markets are, the better they function. With more transmission capacity available, power gets delivered to where it is most needed, and costs decrease for all. More can be done to maximise the volume of cross-border transmission capacity TSOs make available to the market, from years ahead of delivery up until real time.

IV. Improving transparency to ensure proper market functioning: accurate information enables good decision making. Better transparency from network operators is essential for the optimal use of transmission capacity across Europe.

- **Get the governance right:** legal and regulatory certainty is essential to attract and retain the private investments needed to run and modernise the European electricity sector. **Carefully designed European solutions will always surpass rushed national decisions.** The Union should reaffirm its role as primary legislator of the European electricity market, and the European Commission its duty of watchdog against undue interventions. **ACER and national regulators should continue carrying out their positive oversight role** in all market segments, including retail. And Member States should focus on cooperation within and beyond the Union, especially in such transnational projects as offshore renewable development.

Markets have delivered very positive results for European customers over the past 20 years. And they have proved their resilience amid a series of crises affecting the EU (the financial crisis, Brexit, Covid-19, the invasion of Ukraine).

But we must be realistic about what an electricity market design can achieve. No market design can deliver every single national and European social, industrial, environment and energy policy objective. Electricity market design is part of a framework of policies, and that requires far more coherence than exists today between:

- market-led and interventionist policies – where short-term interventions have long-term implications for the energy market.
- national and European action – where national policies often run counter to agreed European objectives.
- social policies and market objectives – where electricity market will deliver efficient outcomes while socially desirable objectives may need to be pursued differently.

Reaching net-zero in a cost-effective way is a huge challenge, but it is achievable. Getting there requires the restoration of a stable market and regulatory framework, to give investors confidence in the future of the European electricity market. This will be essential to develop renewables and other technologies needed for the energy transition, to strengthen the existing market design so that it adapts to this changing environment, and to reflect the different needs of customers. All this requires an unambiguous political commitment to a coherent, European market-led approach to decarbonisation.

See our detailed response to the consultation at:

https://efet.org/files/documents/20230213_EFET_CR_EMD-consultation.pdf