EUI FLORENCE SCHOOL OF REGULATION


POLICY BRIEF

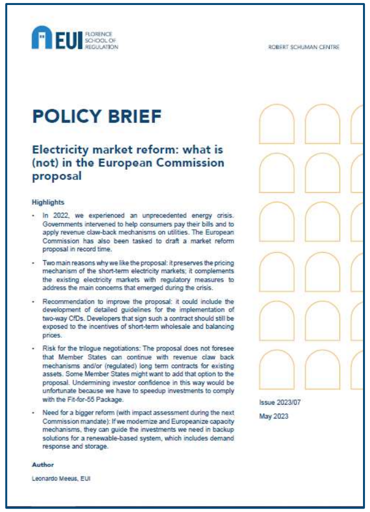
Recent energy price dynamics and market enhancements for the future energy transition


POLICY BRIEF

Consumer protection mechanisms during the current and future periods of high and volatile energy prices


POLICY BRIEF

The 5th EU electricity market reform: a renewable jackpot for all Europeans package?


POLICY BRIEF

Electricity market reform: what is (not) in the European Commission proposal

ROBERT SCHUMAN CENTRE

Electricity market reform: What is (not) in the European Commission proposal

Madrid, 6th of June 2023

Prof Leonardo Meeus

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Loyola de Palacio Chair

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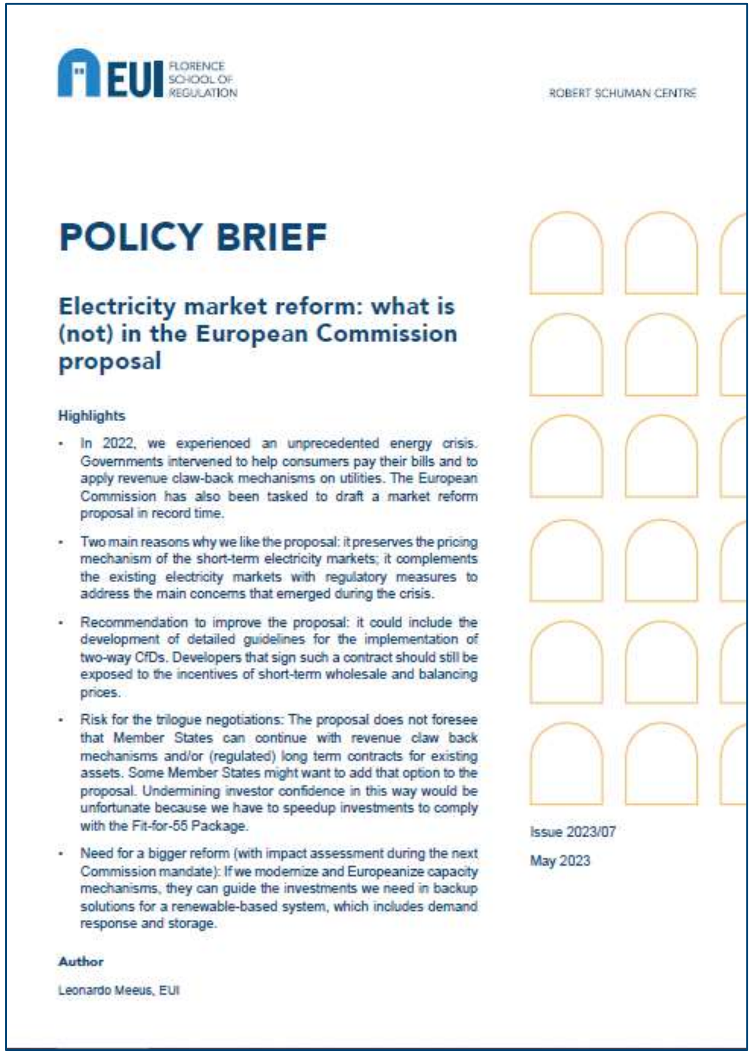
Overview

- Not the issue
  - Electricity short-term market pricing mechanism
- Issues that emerged during crisis
  - (energy) poverty and inflation
  - insufficient hedging by consumers and retailers
  - difficulties in accessing cheap renewables by consumers
  - investment uncertainty, which increased with the many emergency interventions during the crisis.



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POLICY BRIEF

Electricity market reform: what is (not) in the European Commission proposal

Highlights

- In 2022, we experienced an unprecedented energy crisis. Governments intervened to help consumers pay their bills and to apply revenue claw-back mechanisms on utilities. The European Commission has also been tasked to draft a market reform proposal in record time.
- Two main reasons why we like the proposal: it preserves the pricing mechanism of the short-term electricity markets; it complements the existing electricity markets with regulatory measures to address the main concerns that emerged during the crisis.
- Recommendation to improve the proposal: it could include the development of detailed guidelines for the implementation of two-way CfDs. Developers that sign such a contract should still be exposed to the incentives of short-term wholesale and balancing prices.
- Risk for the trilogue negotiations: The proposal does not foresee that Member States can continue with revenue claw back mechanisms and/or (regulated) long term contracts for existing assets. Some Member States might want to add that option to the proposal. Undermining investor confidence in this way would be unfortunate because we have to speedup investments to comply with the Fit-for-55 Package.
- Need for a bigger reform (with impact assessment during the next Commission mandate): If we modernize and Europeanize capacity mechanisms, they can guide the investments we need in backup solutions for a renewable-based system, which includes demand response and storage.

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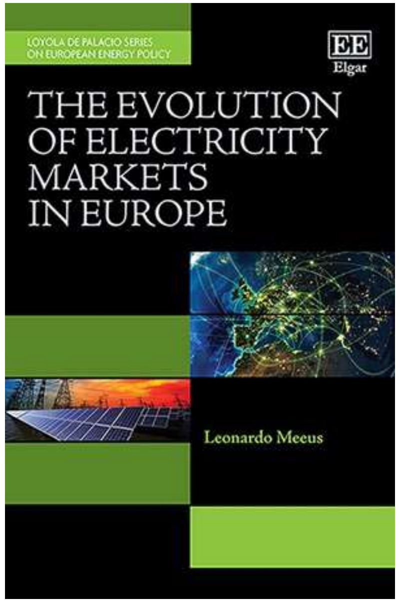
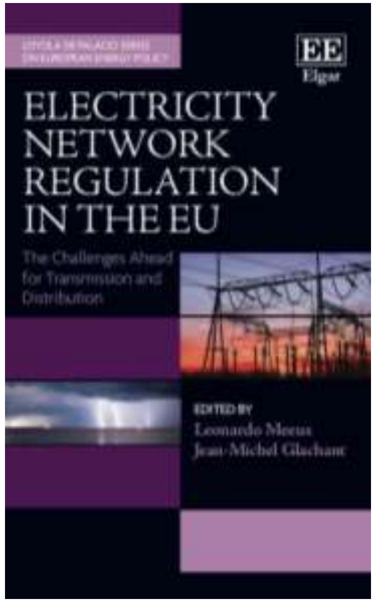
Conclusion

- Two main reasons why we like the proposal
  - The proposal preserves the pricing mechanism of the short-term electricity markets
  - The proposal complements the existing electricity markets with regulatory measures to address the main concerns that emerged during the crisis
- Recommendation to improve the proposal
  - Detailed guidelines for the implementation of two-way CfDs
- Risk for the trilogue negotiations
  - Some Member States might want to add revenue claw-back mechanisms to the proposal, it would be unfortunate to undermine investor confidence
- Need for a bigger reform
  - If we modernize and Europeanize capacity mechanisms, they can guide the investments we need in backup solutions for a renewable-based system





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