

The logo for the European Federation of Energy Traders (EFET), consisting of the letters 'EFET' in a bold, red, sans-serif font.

European Federation  
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SO YOU CAN RELY ON THE MARKET

# Trusting the market in times of high energy prices

25 November 2021

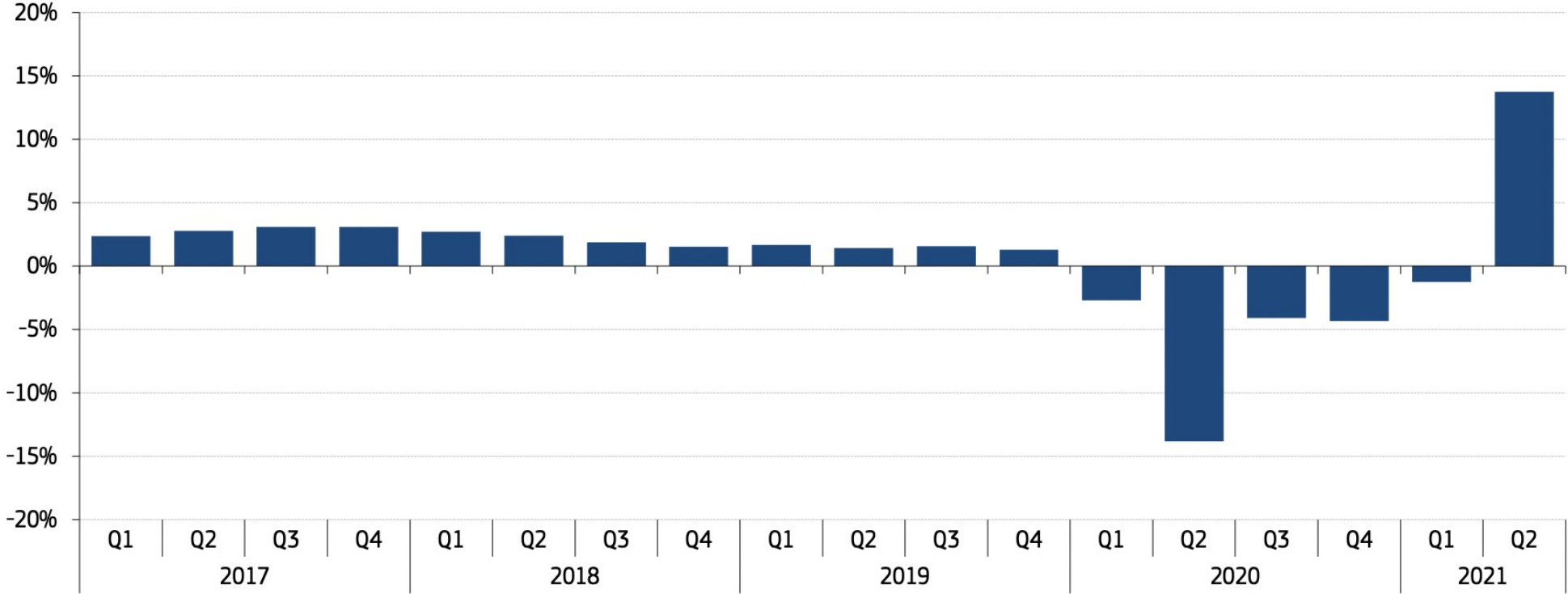
**Jérôme Le Page** | Chair of the EFET Electricity Committee

# Agenda

- **An overview of market dynamics**
- **National interventions into price formation**
- **Areas for reflection and recommendations**

# The electricity market is guided by fundamental drivers: demand

Figure 1 – EU GDP annual change (%)



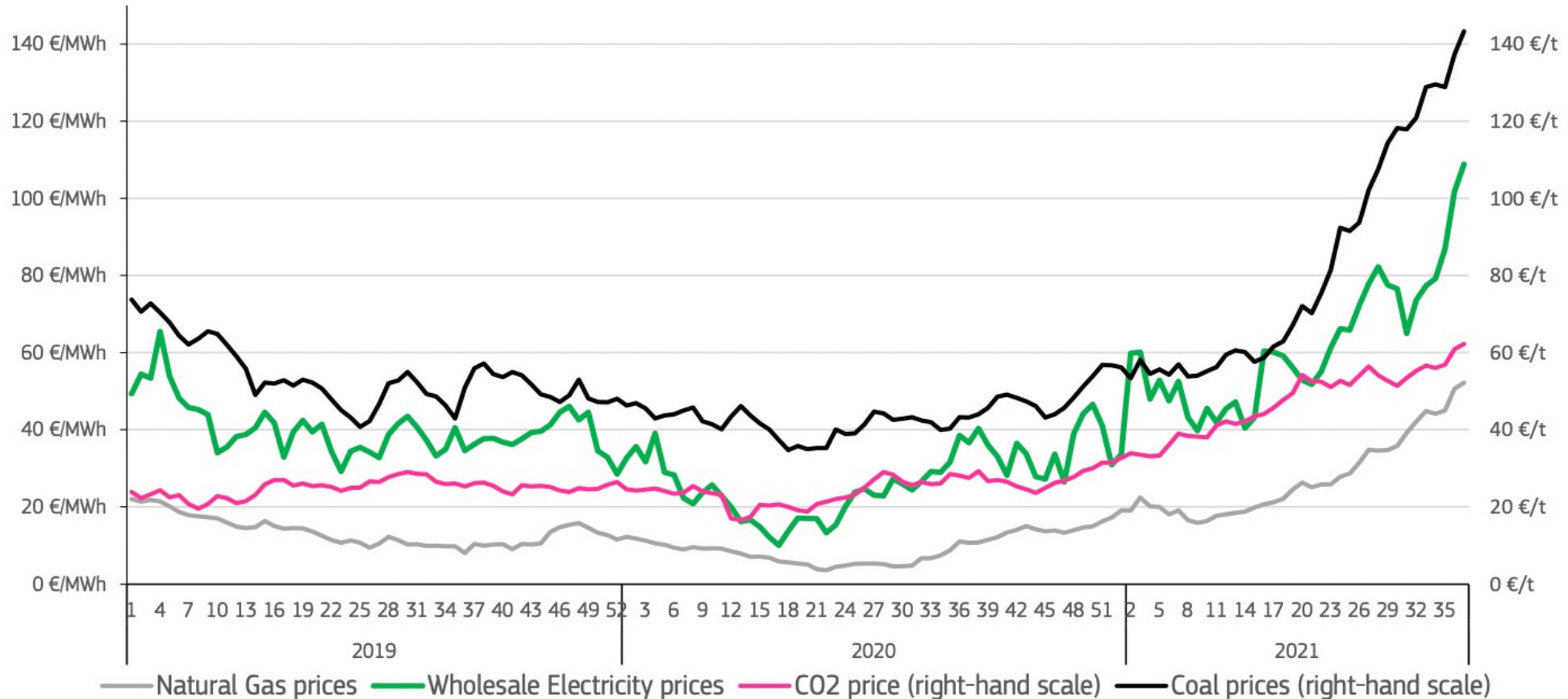
Source: Eurostat

# The electricity market is guided by fundamental drivers: **supply**

- **Tight supply** in electricity production:
  - Poor conditions for RES-E production at the beginning of the fall
  - Low hydro reservoir capacity
- And in **commodities** used for electricity production
  - Strong global demand for natural gas
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  - Increase in prices for carbon emission allowances

# Prices reflect these fundamentals in electricity and other commodities

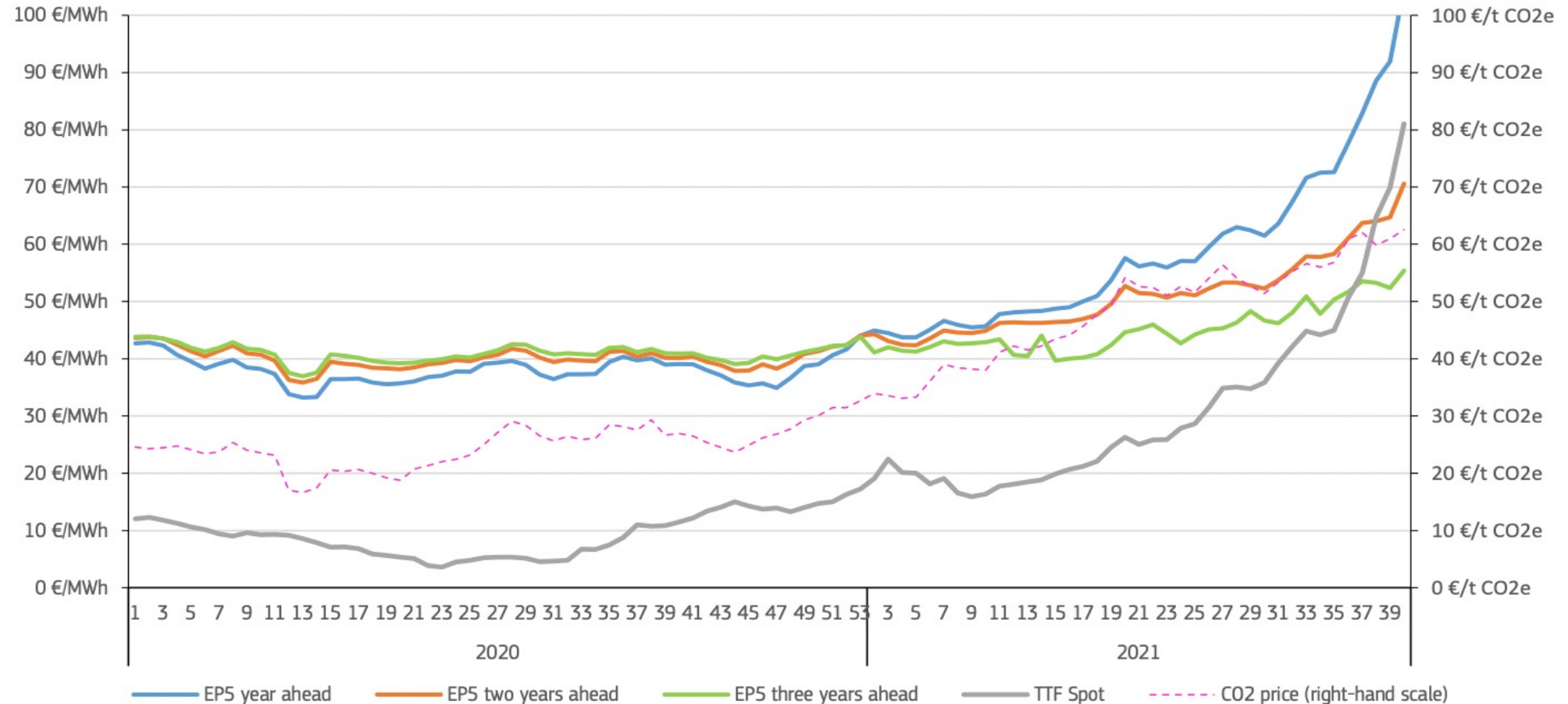
**Figure 26 – Electricity and energy price commodities price development since 2019**



Source: Platts, European Power Exchanges, ENER

# Forward hedging in the market helps absorb price shocks

**Figure 14 – Weekly futures baseload prices – weighted average of 5 European markets**



Source: Platts.

# Reactions to high energy prices are diverse

- **Shield the most vulnerable** – most governments offer financial relief to vulnerable customers (domestic or industrial)
- **Change the rules of the game** – some governments intervene in wholesale price formation
- **Think of how to improve the model** – EC, ACER to make proposals to enhance resilience to price shocks

**The dilemma: how to protect vulnerable consumers while allowing markets to function and avoid increasing costs for all?**

# Examples of harmful national interventions into wholesale price formation

## Clawback measures on so-called “excessive profits”

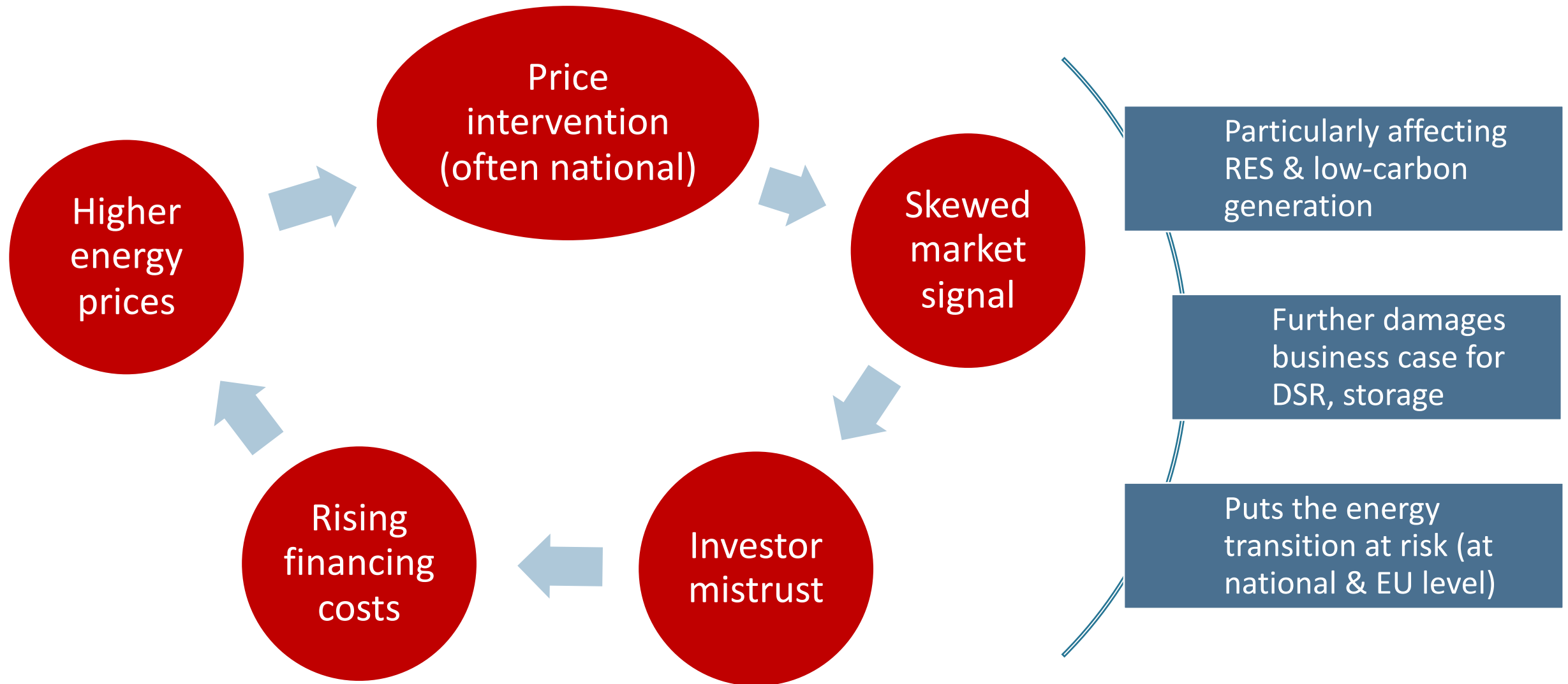
- Enacted in Spain, Romania
- Ex-post taxation of RES and low-carbon generation plants

## Interventions into balancing markets

- Enacted in France, project in Belgium
- Ex-ante intervention in balancing energy prices, imbalance price



# The vicious circle of price interventions – backfiring on consumers



# Areas for reflection

- Our market is delivering
- It reacts to fundamentals
- It drives decarbonisation at least cost and greater consumer participation

**The IEM is strong**

**(National) price interventions threaten it**

- They prevent the market from reacting to fundamentals
- They threaten the accuracy of and case for hedging
- Markets will be disconnected at the time we need greater European cooperation

- Markets are compatible with consumer protection
- EC Toolbox is a good start
- Consumers should know and be able to react if directly exposed

**Help should come to the vulnerable**

**Reforms need to consider investors**

- No clarity on a Plan B
- Design changes can take years
- Risk for new green investment
- Regulatory uncertainty creates costs for the entire system

# EFET conclusions and recommendations

- **The wholesale market based on marginal pricing is delivering** – our framework works and it is reacting to global drivers, incl. demand
- **Improving forward markets** – the ability of market participants to protect consumers from short-term volatility via hedging can be further improved (liquidity up to 15 years)
- **Promoting a positive investment climate** – stable EU and national regulatory frameworks incentivise investment in the energy transition and reduce costs for consumers in the end
- **Protecting the vulnerable** – disproportionately affected consumers need to be protected, without distorting signals for all

# Thank You

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