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European Federation
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Reflections on wholesale electricity market design

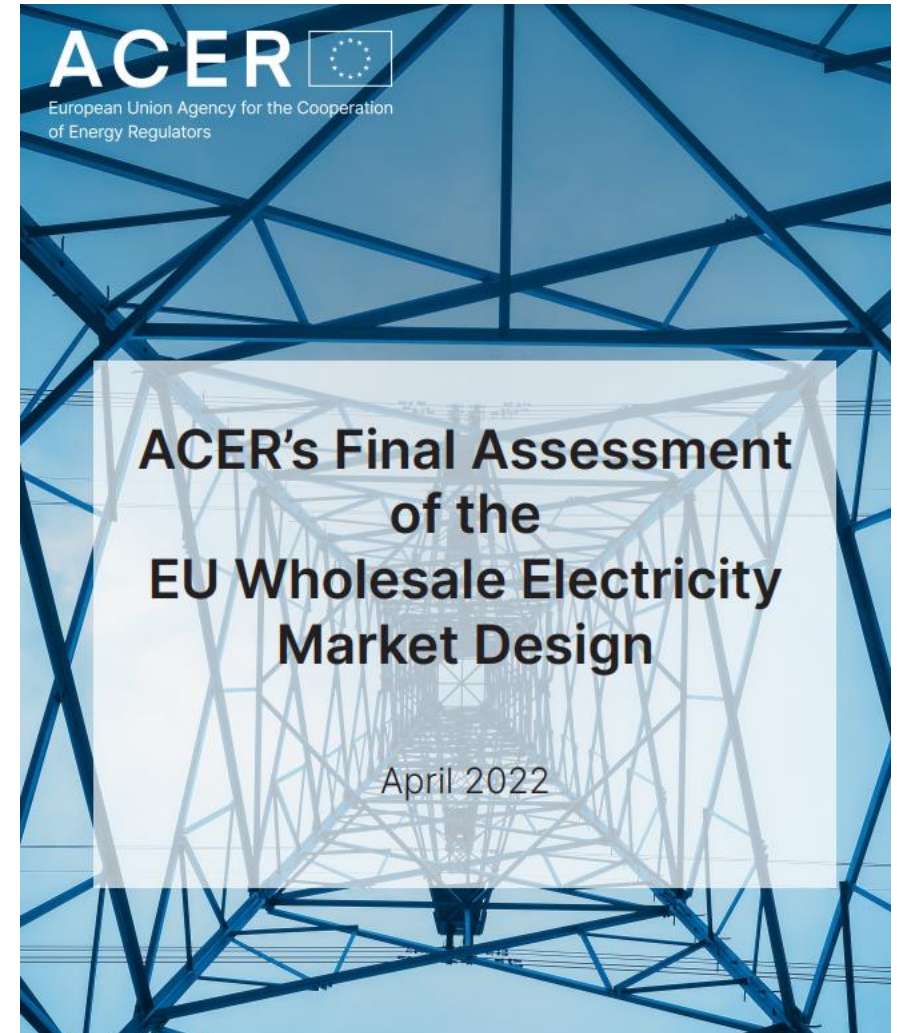
28th MESC meeting – 1 June 2022

ACER report: the IEM brings benefits, care is needed when intervening in it

ACER's analysis in its Final Assessment of the EU Wholesale Electricity Market Design is particularly insightful and we welcome it.

Three points appear particularly relevant to the current situation:

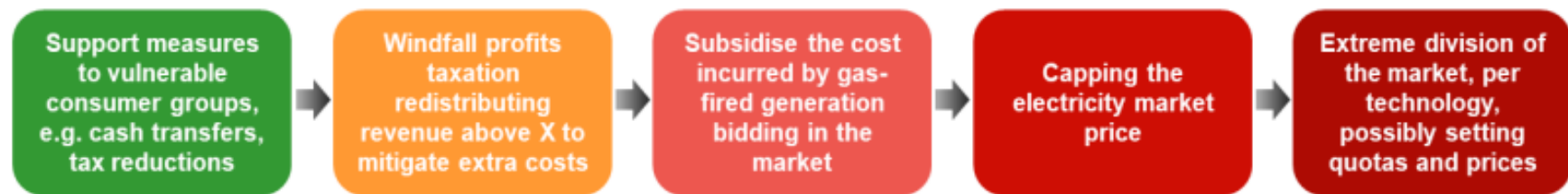
- 1. European market integration is delivering on its objective of providing a secure, affordable and increasingly decarbonised energy supply.** It has delivered €34 billion in savings in 2021 on the electricity side only.
- 2. Interventions into wholesale price formation have a high risk of distorting the wholesale market.** This will reduce the benefits that energy markets can deliver (cost savings, supply security, signals for energy conservation and decarbonisation).
- 3. Policy makers need to consider negative medium and long-term effects of interventions.** Transparency (incl. public consultations) on measures considered and strict expiry dates are necessary.



ACER report: watch out for medium/long-term effects of policy interventions

- **Targeted support for vulnerable consumers** exposed to high price levels is our preferred option, including:
 - reduction of taxes and levies on energy bills
 - energy vouchers or cash transfers
- **Direct interventions into the wholesale electricity market** modify bidding behavior, shift demand and supply and pose a threat to security of supply and decarbonization efforts. These include:
 - clawbacks or taxation on individual transactions
 - decoupling mechanisms of electricity from gas markets
 - explicit price caps in energy markets

Figure 29: Spectrum of possible structural-interventionist measures relevant for the EU electricity market (non-exhaustive)



Source: ACER.

Note: the further a measure is depicted to the right, the deeper the level of intervention and/or alteration of the market framework in ACER's view.

REPower EU: short-term energy market interventions and long-term market design improvements – a course for action

The **European Commission and ACER** have been central to the success of the internal energy market project.

The Commission REPower EU Communication provides a good overview of the current situation. We call for further reflection on:

Short-term interventions

- **Investments in the energy transition or even concluding a 10-year PPA** need a stable and predictable regulatory environment.
- **Price control measures should be avoided** because they would lead to increased demand at a moment of tight supply.
- **Member States interventions must be limited in time, scope and effect.** The condition of the REPower EU communication must be respected (impact assessment & consultation).



Long-term design

- We welcome the fact that the Commission is taking the time to assess the different options
- We stand ready to offer our expertise in recommending the best policy options, especially on **improving the functioning of forward markets**

EFET advice: improving forward markets, a quick win for the European electricity system

- ✓ Forward markets is where most of the electricity is traded today.
- ✓ They are key to smoothen volatility on the market.
- ✓ They provide signals for investment in generation, networks, storage and demand response.



Boosting liquidity and competition on forward electricity markets is a shared objective of the EC, ACER, and market participants. Some suggestions how to get there:

- Promoting forward market liquidity by **introducing voluntary market-making incentives** in illiquid markets
- Mandating the **issuance of forward transmission rights (FTRs) by all TSOs at all European borders**
- Removing any barriers to and providing **incentives for the conclusion of multi-year contracts like (renewable) PPAs** as market-based solutions for long-term hedging
- Developing **5-year-ahead forward transmission rights** to start matching the contract duration of PPAs

Conclusion: what can policy makers do?

- **Looking at the energy system holistically** – not disconnecting electricity prices from its fundamental drivers, including demand and supply
- **Trusting an IEM that works** – and has proved to create billion euros in social welfare while delivering on decarbonisation and security of supply
- **Protecting the vulnerable in times of stress** – targeted measures (e.g. tax reductions, cash transfers) can be used without distorting price signals for all
- **Understanding and improving forward markets** – hedging is already protecting consumers from short-term volatility but can be further improved
- **Promoting a positive investment climate** – investment in the energy transition needs stable and predictable regulatory frameworks
- **Acting together to improve resilience** – the European Commission should champion Europe-wide solutions and minimise long-term damaging effects of Member State interventions



Thank You

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