

High energy prices

Implications for electricity
market design?

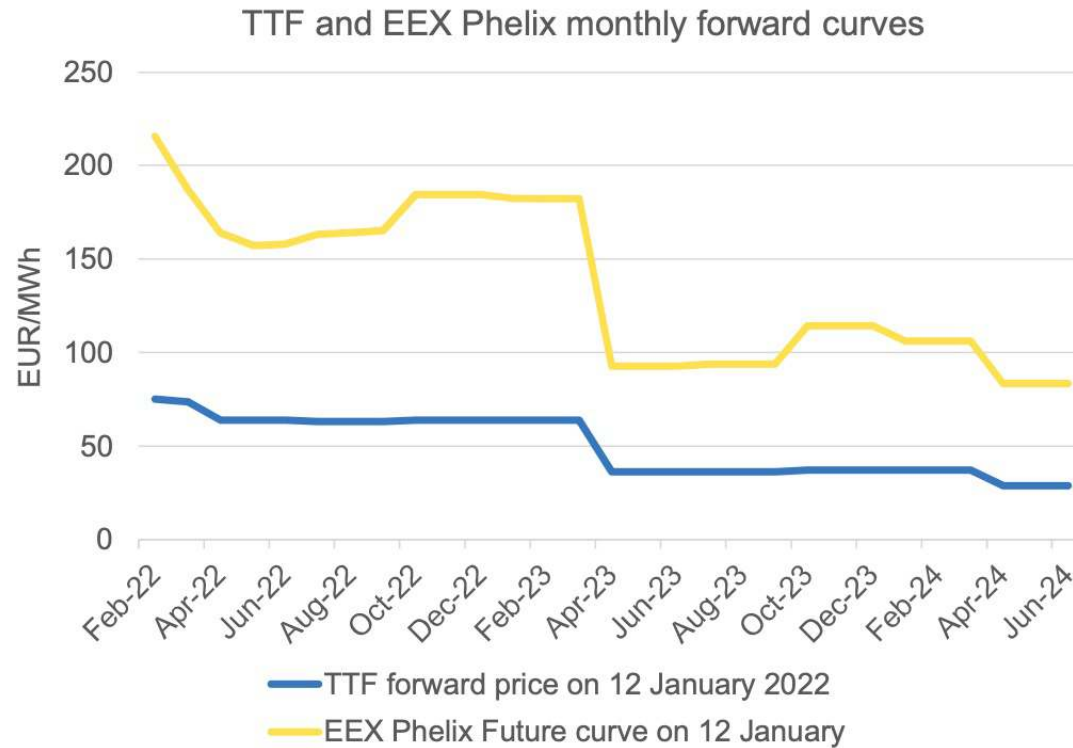


Virtual panel discussion
Thursday, 24 February 2022



1. Energy prices: status and outlook

- Mix of factors: strong global economic recovery, a simultaneous demand and supply shock, technical supply shortages, unfavourable weather conditions and a strained geopolitical situation.
- Wholesale gas prices have been up to 400% higher compared to a year ago. Wholesale electricity prices have increased by approximately 260%.
- Gas prices peaked in Dec. 2021 at 180 EUR MWh. Oil prices are at their highest since 2014.
- Beyond the current heating season (October 2021 to March 2022), many analysts expect prices to remain above historic levels for at least two years.
- In the near-term, gas is likely to continue to drive electricity prices.



Source: ACER

2. High energy prices: key moments in the European debate (1/2)

13 Oct. 2021

Commission ‘toolbox’ published: Following its commitment in September, the EC set out a harmonised framework for short-term relief measures to help protect vulnerable consumers, as well as medium- to longer term measures.

Nov. 2021

ACER and ESMA publish their preliminary reports: on the functioning of the electricity and carbon markets respectively.

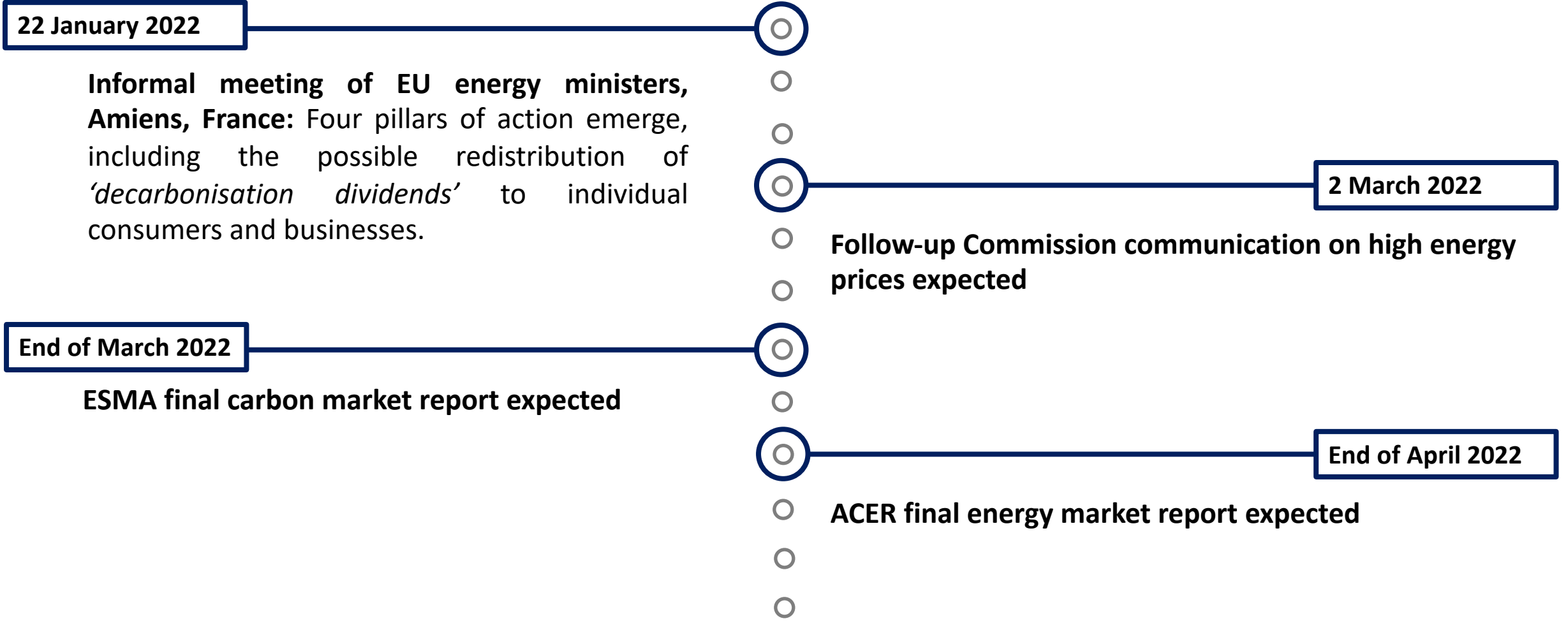
21-22 Oct. 2021

European Council: EU leaders invite the Commission to study the functioning of the gas and electricity markets, as well as the EU carbon market. The topic is taken up again at the 16 Dec. Council.

2 Dec. 2021

TTE Council - Energy: France, Greece, Italy, Spain and Romania submit a joint non-paper on energy prices, arguing for a closer link to the costs of the generation mix. Nine other member states publish a paper defending the ‘*competitive principles*’ of the electricity and gas market design.

3. High energy prices: key moments in the European debate (2/2)



4. Member State pricing proposals and interventions

Examples of proposals for alternative pricing approaches and/or financial redistribution

Decoupling the electricity price from the clearing price: Notion of high gas prices ‘contaminating’ the ‘pure marginal price signal’. Proposal for an average price with reference as well to the cost of ‘inframarginal’ clean technologies (particularly renewables). The price ‘would be directly linked to the national production mixes’.

Setting a price cap on natural gas: Set a price cap on the price of bids from electricity produced by natural gas. This measure requires a subsequent compensation to be recovered at a later stage. Technology-specific price ceilings are also discussed.

Financial transfers between producers and consumers: Mechanisms, based on financial transfers between producers and consumers, ensuring that final consumers pay electricity prices that reflect the costs of the generation mix used to serve their consumption.

‘Clawback’ interventions (so far) out of scope of the Commission ‘toolbox’

- **Italy:** Proposed clawback mechanism for renewable power generation, and a fixed reference price until the Dec. 2022, based on historical average zonal electricity prices in Italy.
- **Spain:** Proposed charge on hydro, nuclear and renewable power plants to redistribute higher revenues earned from high wholesale prices.
- **Romania:** From 1 Nov. 2021 until 31 Mar 2022, sales from renewable electricity, hydro and nuclear power generation at prices above 450 LEI/MWh (app. 90 EUR/MWh) will be taxed ex-post at 80%.

5. Panel discussion: the panelists



Moderator

Christian Baer

Secretary General, Europex



*Academic
perspective*

Leonardo Meeus

Executive Deputy Director, Florence School of Regulation

Professor, Vlerick Business School



*Utility
perspective*

Alfred Hoffmann

Chairman Markets and Investment Committee, Eurelectric

VP Portfolio and Business Development, Vattenfall



*Trader
perspective*

Mark Copley

CEO, EFET



*Energy exchange
perspective*

Jonas Törnquist

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