



eurelectric

High energy prices: Implications for electricity market design?



25/2/22

Confidentiality: C2 - Internal

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General comments

- The **European electricity wholesale market model provides adequate short-term price signals and has proven its robustness during the energy price surge.**
- The **long-term objectives** are clear:
 - reduce our dependency on fossil fuels consumption & imports,
 - accelerate the low-carbon energy transition and secure the overall system with sufficient capacity.
 - the FF55's ambition should not suffer from the ongoing high prices in the energy markets.
 - maintain efforts to complete a robust & interconnected internal energy market as rightly highlighted in ACER's preliminary assessment.
- Questions on the need for complementary mechanisms to trigger long-term investments and to stabilize retail prices are legitimate but **should not be tackled through solutions that distort wholesale market prices.**
- We are strongly concerned to see that some governments are taking measures that distort markets and can **severely endanger the energy transition at large by breaking investors' confidence and therefore deterring the needed investments towards decarbonisation.**
- **Priority should be given to immediate measures supporting consumers** (especially the most vulnerable ones) without affecting the functioning of the energy market.



Achievements of the IEM up until 2020

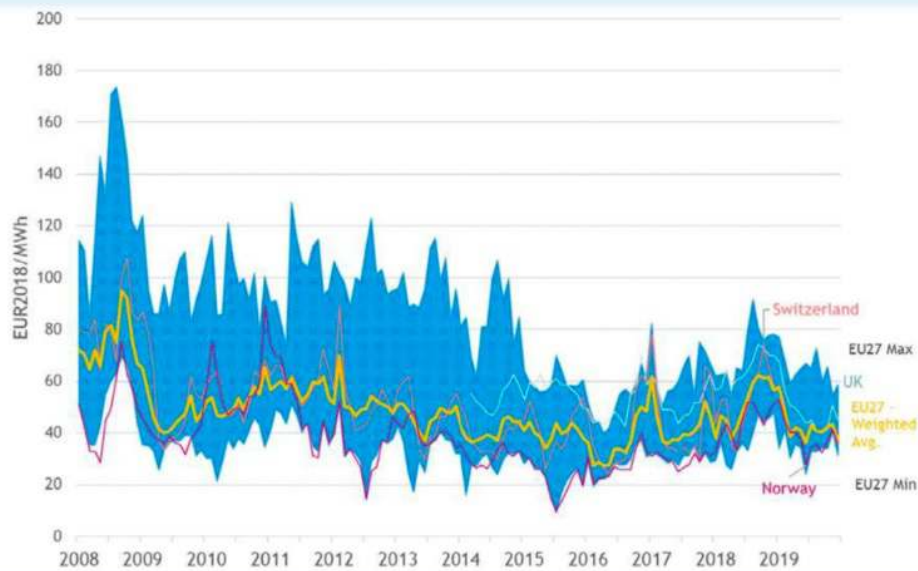


Figure 2: Electricity price convergence and minimisation of local price spikes due to greater integration driven by day-ahead market coupling based on marginal pricing (Source: European Commission).

Source: EFET Insight

- Overall Security of Supply improved significantly over the last two decades (e.g. DE-SAIDI down from 21,53 minutes in 2006 to 10,73 in 2020)
- Average emissions of electricity generation went down from 392 g/kWh in 2000 to 226 g/kWh in 2020
- Inflation went up with 50% since 2000, emissions costs have been fully internalized but electricity price level kept rather stable up until 2020. Not at least due to optimal use of infrastructure and build out of new interconnectors
- Customers can choose today between dozens sometime hundreds of suppliers offering a wide range of products

Customer Centricity

- Listen to the customer!
- They **would like to take an active role in the energy transition**
- Energy prices, aspiration and curiosity will trigger investments in
 - Energy efficiency improvements
 - Demand side response (DSR)
 - Storage investments
- Electricity Suppliers **can offer a variety of pricing offers** allowing **maximum choice and the best fit for customers** depending on their individual need (risk free vs. certain level of exposure) & required level of firmness.
- **Explore possibilities for longer-term supply contracts** which allow suppliers to plan ahead while cushioning price variation for customers.



How to move forward?

- **Mitigate impact on vulnerable customers** via targeted support measures such as reduction of taxes & levies, energy vouchers, welfare/social policies, energy efficiency measures, etc... & not via distortive measures
- **Further accelerate the energy transition** leading to reduced dependence on fossil fuel consumption & imports
- Further **strengthen the IEM through CEP implementation** leading to least costly achievement of targets
- Further **strengthen the ETS** leading to least costly emission reduction
- Further **strengthen the customer engagement** as the future will be decentral
- Further **strengthen the Energy Sector Integration**
- **Improve the investment environment by removing political interventions & enhancing long-term price signals, where needed**

