



– Press release –

Call on EU energy ministers to prioritise well-functioning, well-integrated and liquid short- and long-term electricity markets

Brussels, 17 October 2023 | As the EU energy ministers meet in Luxembourg today to discuss and pre-finalise the Council's general approach on the Electricity Market Design (EMD) review, we would like to use this opportunity to again remind of several important items that need urgent improvement. In particular, we call on the 27 Member States to carefully consider the severe negative consequences several of the proposed amendments could have on the well-functioning, integration and liquidity of the EU electricity markets:

- 1. Single Legal Entity.** The introduction of a Single Legal Entity (SLE) for market coupling would put at risk the functioning, operation and further evolution of Single Day-Ahead Coupling (SDAC) and Single Intraday Coupling (SIDC). Such a costly and counterproductive reform, which has been repeatedly and broadly rejected by stakeholders, incl. TSOs, NEMOs and market participants, during the CACM 2.0 revision process from 2020 to 2022, would neither have a positive impact on the efficiency of market coupling nor would it lead to lower electricity prices. On the contrary, it could potentially result in higher inefficiencies, a lack of innovation and a higher risk of system failure. Against this background, we urge the deletion of any reference to a Single Legal Entity in the EMD.
- 2. Regional Virtual Trading Hubs.** The introduction of Regional Virtual Trading Hubs (RVTHs) as a mandatory target model for the whole of Europe should not be imposed without a proper impact assessment. RVTHs may fragment liquidity, create significant costs and risks for both TSOs and market participants, and hamper the overall functioning of European forward markets. The EMD should rather aim to address the underlying reasons of limited market liquidity (e.g., regulatory interventions, non-marked based support schemes, collateral requirements, etc.) while fostering existing market-based hedging solutions.
- 3. Inframarginal revenue caps.** As highlighted by a recent report of the European Commission, the implementation of inframarginal revenue caps across Europe has substantially fragmented the Internal Energy Market by a patchwork of national interventionist measures. This has severely slowed down the investments in new renewable capacity while leading to very limited additional

income for the national Ministries of Finance. Hence, these instruments should be fully phased out in all Member States by the end of this year rather than to leave Member States an option to prolong them.

- 4. Peak Shaving Products.** The implementation of additional flexibility products procured by TSOs and DSOs would not provide any added value to the activation and remuneration of flexibility resources. Existing short-term markets already provide clear price signals and a wide range of products to fully integrate flexibility assets into the electricity system. On the contrary, peak shaving products may take away important marginal capacity from the market at moments when it is most needed.
- 5. Capacity mechanisms.** Capacity Remuneration Mechanisms (CRMs) as implemented in several EU Member States distort the free price formation in the electricity market and lead to economically inefficient investment decisions. Therefore, CRMs should remain temporary instruments, activated only as a measure of last resort to address severe and urgent adequacy concerns but not to fill in for proper long-term adequacy planning and market driven investments.
- 6. Unit-based vs. portfolio bidding.** Member States should be free to decide on whether they opt for portfolio-based or unit-based bidding according to the diverse features of the different national energy systems in Europe. We therefore call on the Council not to impose one model or the other.

About

Europe is a not-for-profit association of European energy exchanges with 34 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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