



To the attention of Heads of State

Brussels, 21 March 2023

Subject: Electricity Market Design Review - The views of the European power sector ahead of the European Council, 23-24 March 2023

Dear Leaders,

More than a year after the unjustified Russian aggression against Ukraine, the European power sector welcomes the European Commission's recent proposal aiming at reforming Europe's electricity market design to make electrification the natural choice for decarbonising Europe and reducing our dependence on imported fossil fuels. Ahead of your upcoming discussions, we wish to share with you the views of the power sector.

Preserving what works

The pillars which have made that framework so effective – cost-efficiency, European integration, competition – should remain and be reinforced.

Firstly, we remain convinced that the only way out of this crisis is a **truly European internal energy market**. We need more, not less Europe and the internal energy market is non-negotiable. European cooperation and integration of electricity markets has brought significant benefits over the past 20 years but none more so than the past year, where the market stood resilient despite a major external supply shock.

The proposal rightly preserves **short-term wholesale markets based on marginal pricing**. Such a system is essential for an efficient functioning of the power system and cross-border trading and therefore reduced volatility despite the exceptional circumstances of the energy crisis. We call on you to preserve such an approach as reverting back to regulated/government pricing of energy is not the right premise of a united, cohesive Union.

Removing what doesn't work

The proposal thus rightly allows **emergency measures to be phased out**, in particular the so called "infra-marginal revenue cap". The Electricity Market Design Reform is an occasion to reinforce the integration of the internal energy market, not to weaken it. Emergency measures should be developed on an ad-hoc basis to meet the specific needs of crisis situations and should always be targeted, temporary, and time-limited.

What can be improved

Whilst the crisis demonstrated the resilience and benefits of an integrated European market, it also highlighted some areas for potential improvements of market design. In particular, there is a need to develop long term markets across Europe.

The proposal rightly focuses on enhancing long-term hedging and contracting opportunities. This is the surest way of to allow customers to hedge the future price of their power while de-risking investments. Forward hedging, power purchasing agreements, and contracts for difference (CfDs), all have a role to play to de-risk investments and mitigate exposure to short-term volatility for consumers. Positively, the Commission’s proposal does not impact on existing assets nor mandates new generation to sign contracts for difference – such an approach would have greatly undermined investor certainty.

What needs more analysis

Of concern, there are a number of proposals that appear premature and would require a deeper consideration of impacts. We believe that given some of the unintended consequences these ideas may have, a more optimal approach could be to discuss these proposals in the next Commission’s mandate, based on detailed impact assessments.

The proposal introduces **counterproductive hedging obligations**. Provisions around enhancing suppliers’ resilience are welcome and needed but a more effective policy instrument would be to introduce guidelines for a resilience framework, thus enabling national regulators to perform regular stress tests and introduce reporting requirements for suppliers. This would ensure reliability while allowing responsible retailers the possibility to optimize their hedging strategy and thus keep costs down for consumers.

The proposal to develop regional virtual hubs by TSOs as a way to stimulate liquidity in forward markets is not addressing the relevant issues and can strongly disrupt markets. Such technical policy options should rather be addressed as part of the dedicated Forward Guidelines review and be subject to a thorough impact assessment.

Elsewhere, the proposed measures to **incentivise flexibility** (peak shaving, flexibility support schemes, flexibility needs assessment & objectives) are going against a technology-neutral & market-based approach.

Finally, the proposal fails to sufficiently address the **massive grid investment & digitalisation challenge** required to electrify further. The benefit of renewables and flexibility from consumers can be harvested only to the extent the grid deployment keeps up. Allowing System Operators to make anticipatory investment is positive. However, the reform should ensure that network tariff design provide the right incentives to system operators by combining a timely recognition of “classic” investments in physical networks and adequate returns, with a flexible reflection of operational costs and remove any existing barriers at national level.



Next steps

The electricity industry remains committed to its goal of powering a thriving, competitive, climate neutral European economy. On 29th March, Eurelectric will further contribute to the electricity market design reform by releasing very tangible policy recommendations to further empower consumers, incentivise clean energy investments, and ensure security of supply in a changing energy system.

We remain at your disposal for further exchanges on how best deepen and reinforce the Internal Energy Market and make it even more fit for achieving net-zero.

Yours sincerely,

Leonhard Birnbaum
Acting President

Kristian Ruby
Secretary General

Encl: [Eurelectric paper on electricity market design](#) – December 2022

Encl: [Eurelectric Executive Summary to EC consultation on market design reform](#) – February 2023