

ENTSO-E's priorities on the reform of the EU Electricity Market Design

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ENTSO-E responded to the European Commission Public Consultation on Electricity Market Design. In this context, ENTSO-E presents below its main priorities for a market in line with consumers' needs and supporting the decarbonization of the electricity system.

The upcoming legislative proposals should not only address the most urgent energy policy challenges, but also accelerate the transition to a resilient and affordable carbon-neutral power system. We understand that the "targeted" scope of the upcoming reform will focus on a limited number of legislative proposals to allow a quick adoption in the coming months and a balanced policy intervention in electricity markets. On the other hand, we see the need to adopt a broad and forward-looking approach: even if some of the required policy measures would require a separate legislative process, they should already start being discussed in the context of the upcoming revision.

In our Vision "A Power System for a Carbon Neutral Europe", we have identified the requirements to achieve this future system; in particular, we have shown that to accelerate the energy transition electricity markets will need to:

- 1) **enable the necessary investments** in renewables, flexibility resources, and grid development at the right location via **effective long-term price signals**;
- 2) incentivise **efficient dispatch** and **flexibility resources** via well designed **short-term markets**;
- 3) facilitate the safe and efficient **operation of the electricity system** by ensuring that market incentives are consistent with the physical network capabilities and system security requirements;
- 4) **support and empower consumers** by delivering them affordable power, as well as a wide range of retail offers and engagement opportunities.

ENTSO-E responses to the consultation are consistent with these priorities.

Investments in renewable and low-carbon generation must accelerate. Given the scale of the challenge, market mechanisms need to be driven by cost-effectiveness and allow for efficient integration of the supported units in the wholesale and ancillary services markets. Two-way Contract for Differences (CfDs) can be an effective instrument to provide long term investment signals while avoiding excessive generator revenues when prices are high. However, they need to be carefully designed to avoid distortions or liquidity decrease in spot and balancing markets. Moreover, regulation should not prevent market parties to engage in other long-term hedging instruments such as Power Purchasing Agreements or forward markets.

An increasingly weather-dependent system requires matching flexibilities. To support the transition to a carbon neutral European power system, the investment framework must be improved not only for low carbon generation but also for the **complementary flexibility resources**. The flexibility and ancillary services provided by these resources will allow us to ensure an adequate, reliable and affordable power system as we speed-up the energy transition. In this context, **targeted improvements to the EU framework related to resource adequacy and in particular to Capacity Remuneration Mechanisms (CRMs) are required**. Such improvements should aim at faster, clearer and more fit-for-purpose processes, facilitating the introduction of CRMs at national level while improving their consistency and coordination at regional/EU level. In this context, the scope and approval process of the European Resource Adequacy Assessment should also be reviewed. We strongly support the inclusion of these measures in the upcoming EU regulation.

Undistorted short term price signals, market integration and liquidity are essential to ensure an efficient dispatch of generation and flexibility resources. Day-ahead, intraday and balancing price signals will thus continue to be a key feature of the future market design. Short-term and ancillary services markets will also

need to progressively evolve to remove any remaining barriers to market entry for new flexibility providers and allow efficient and coordinated access to distributed energy and flexibility resources including storage and demand response.

Market design needs to properly reflect grid constraints and operational challenges to ensure **system resilience and efficient use of infrastructure** in a highly complex System of Systems covering the whole of Europe. Optimal use of infrastructure and adequate locational signals limits the costs of renewable curtailments and congestion management which are rising in many countries and are ultimately borne by consumers.

The electricity market design should be in line with consumers' needs. The recent energy prices crisis is a key driver for targeted policy measures with a clear objective: energy affordability and consumer protection. Those measures should nevertheless ensure that efficient price signals for demand response, and energy savings are enhanced rather than undermined. Direct consumer support measures can be complemented by solutions such as fixed price contracts with fixed volumes or allowing competition behind the meter to unlock flexibility potential. In the longer run, the best way to reduce the impact of high fuel prices on consumers' bills is to accelerate the development towards a power system with full carbon neutral generation and complementary flexibility, with significantly higher energy efficiency and optimised price signals.

These objectives need to be considered together, as **they are all complementary parts of a future-proof market design to facilitate a carbon neutral European power system.** Some are relatively straightforward and could be part of the targeted legislation scheduled this year, and ENTSO-E is ready to provide suggestions for concrete text formulations and amendments. For those that are more complex or need more time to be established, the groundwork should start as soon as possible. ENTSO-E is ready to continue the dialogue with all institutions and stakeholders, so that these objectives can be included in the EU legislative framework in the near future.