

20<sup>th</sup> October 2023

# Electricity Market Design

## Trilogue negotiations

As part of the trilogue negotiations on the **revision of the electricity market design**, the **Union of the French Electricity (UFE)** outlines its recommendations on this essential piece of legislation for the industry, to **strengthen the EU's energy sovereignty, enable consumers to benefit from stable and affordable electricity prices, and provide visibility to investors in decarbonised energies**.

UFE believes that a reform adapted to these objectives must be implemented by early 2024 at the latest, to provide the EU with structural solutions that go beyond emergency measures in a crisis situation.

### Emergency measures

To tackle the electricity price crisis experienced by the EU in 2022, it was necessary to put in place emergency measures to mitigate the impact of these spikes on households, communities and businesses. The **criteria** for triggering an emergency situation must be sufficiently strict to **avoid ending up in a permanent crisis situation**. Furthermore, it is not because the EU made certain choices of tools during this crisis that these tools must become predefined tools for all future crises (for example the choice of capturing inframarginal rent).

→ UFE supports the Commission's initial proposal which makes it possible to trigger a crisis situation if 3 cumulative conditions are met: a criteria based on retail prices, a criteria based on wholesale prices, a criteria based on economy.

→ UFE supports the Parliament's addition to the "wholesale price" criteria, which specifies that the price must be at least €180/MWh.

### Long-term contracts

UFE believes that to improve visibility on futures markets, remove obstacles to longer-term private contracts and develop public regulatory tools, players need a diversified European "toolbox", respecting the energy mix of each Member State. In this context:

- Facilitating, in particular through public guarantees, the conclusion of **PPAs for all low-carbon technologies** is essential.
- In addition to “market-based” PPAs, **Member States must have the possibility of offering contractual arrangements, such as CfDs.**
- We support a **redistribution of the gap in income from CfDs between the CfD reference price and market prices to all types of consumers, including industrial ones.**
- The use of these tools must be **voluntary.**

→ For PPAs, UFE supports the Commission's proposal, as well as the Council's position, which make it possible to respond adequately to the challenges of the sector.

→ Concerning CfDs, UFE supports the Commission's initial proposal, as well as the Council's position, which allow a Member State to voluntarily use CfDs to support investments in low-carbon production. This possibility expands the toolbox at Member States disposal so they can secure their investments according to their energy mix and mitigate the impact of high prices in the event of a crisis.

→ Regarding the redistribution of the gap in income from CfDs between the CfD reference price and market prices, UFE supports the Commission's initial proposal to redistribute revenues to all consumers.

→ UFE also supports the European Parliament's position which keeps the door open to support schemes equivalent to CfDs for new investments.

### Capacity mechanism

In order to respond to the challenges of energy sovereignty, a key issue highlighted by the crisis we have just experienced, the capacity mechanism should become a permanent element of the electricity market in Europe.

→ UFE supports the Parliament's position proposing to end the exceptional nature of this instrument as well as the Council's approach to remove its temporary/last resort nature.

### Submetering.

While it is necessary to increase the flexibility of the system, notably through demand-response measures, it is essential to take into account the varying situations of Member States regarding the deployment of smart meters.

**When smart meters complying with Directive 2019/944 have been deployed, it is essential that metering for “billing” and “settlement” is carried out by the smart meter.** Flexibilities must be correctly measured and taken into account by a trusted third party. If a temporary reduction in consumption on one device turns out to be offset by increased consumption on others, this could

put at risk the security of supply. However, only the main meter is capable of verifying the overall consumption of a site. This modus operandi will not be an obstacle to the Commission's proposal to have a contract/supplier per use.

→ **The position of the European Parliament, as well as the Council's position, take more into account the existing role of smart meters when they are deployed compared to the Commission's initial proposal, but the reasoning is not taken to the end as it leaves "billing" and "settlement" in the hands of the submeters.**

### Anticipatory investments in grids

It is necessary to stimulate investments for the development of electricity grids, for both transport and distribution. Removing national barriers to investment in networks is an essential prerequisite.

→ The provision on anticipatory investments in grids is essential, but clarification on the regulatory treatment is necessary to operationalise this possibility in practice and ensure that system operators do not suffer financial disincentives.

### Energy sharing

In order to maintain the social nature of energy sharing and ensure the most efficient allocation of renewable energy production, energy sharing should be reserved for **non-commercial operations** and **Member States must be able to set certain limits in terms of capacity and proximity.**

→ **UFE supports the position of the European Parliament** which makes it possible to respond to the needs of the sector.

### Hedging obligations

If the crisis has shown that it is important to move towards better supplier hedging, electricity **suppliers remain in the best position to define the most appropriate hedging tool based on the expected consumption of their customer portfolio.** and taking into account their preferences and contract types. In this sense, hedging strategies should not be limited to PPAs alone.

We also recommend giving national regulators the means to check the resilience of suppliers in the face of market shocks.

→ **UFE supports the European Parliament's position** which offers more flexibility in the choice of tools.

### Suppliers contracts obligations

Suppliers who offer fixed-term fixed-price contracts are exposed to risks linked to changes in market prices. While protecting consumers, suppliers must be able to benefit, faced with the

obligation to cover their portfolios in particular with long-term products, from a framework providing for the establishment of early termination fees, in order to guarantee balance economics of contracts.