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Summary of UFE's answer to the European consultation on Market Design review

The crisis of electricity prices that we are facing has required emergency measures to mitigate the impact of these increases on households, local authorities, and businesses. These interventions have taken the form of state aids (in France, tariff shields, electricity shock-absorber, and one-stop shop for subsidies for business facing financial difficulties), financed by public resources, including CfDs for renewable energy and the inframarginal rent caps.

The management of the crisis and Member States' interventions have provided short-term responses to the effects of the crisis, but these measures are costly and cannot be extended in the long run. Their retroactive effects generate uncertainties for investors and affect the trust that consumers have in suppliers. In addition, they do not provide sustainable solutions for our industries facing a growing competitiveness gap with the rest of the world and particularly with the United States. The "Green Deal Industrial Plan" must strengthen the competitiveness of the European industry while supporting the transition towards carbon neutrality.

Electricity prices remain dependent on fossil fuel prices which can be very fluctuant, as well as the availability and variability of production. The upcoming winters will remain tense. We must reduce our dependence on imported fossil fuels, and safety margins for energy supply in Europe have decreased.

*The responses to the Commission's consultation should clarify the distinction between crisis management measures and those to **realign the European market framework to meet the decarbonisation objectives of the 'Fit for 55' package**. They should also ensure that electricity prices reflect the electricity mixes of the Member States.*

The reform must provide structural solutions, starting in 2023.

UFE (French Electricity Industry) calls for a structural reform of the market framework to achieve the following objectives.

- **Maintain the ability of the European market to optimise the use of available resources.** The electricity wholesale market makes it possible to call on the most competitive production and load-shedding capacities available at a given hour in the short-term, as well as the optimal use of interconnection capacities in Europe.
- **Strengthen the European energy sovereignty through the development of low-carbon electricity capacities.** This requires long-term predictability of electricity prices, as well as revenues for investors.
- **Enable consumers to benefit from stable and predictable prices that best reflect the costs of their decarbonised electricity mix.** This is an absolute precondition for social acceptance of the energy transition.

UFE recommends an approach that preserves the achievements of the European electricity market coupled with public regulatory tools to ensure the achievement of the defined medium and long-term planning objectives at European level, as well as the transmission of a price to consumers reflecting the full costs of the decarbonized electricity mix.

To provide predictability to investors and consumers, UFE calls for the development of medium and long-term contracting through the deployment of forward markets and the enlargement of the European framework to include private contracts such as Power Purchase Agreements (PPAs) and public contracts such as Contracts for Difference (CfDs) for all decarbonised technologies.

1. UFE calls for improving the current forward markets by creating a listing of long-term products by mandating TSOs to issue long-term interconnection rights (beyond the current one-year horizon) and by changing the margin call rules to prevent actors from being in a non-payment situation.

2. UFE supports the development of private long-term contracts ("Power Purchase Agreements" or PPAs) for all low-carbon technologies within the framework of competition law. To support the development of PPAs, UFE **recommends expanding public guarantee funds** to cover situations of default by the counterparty to the contract. Such a fund is currently planned in France for renewable electricity producers co-contracting PPAs with industrial consumers. Its eligibility criteria should be broadened. UFE also recommends the possibility of pooling demand to give smaller consumers access to PPAs, facilitating the signing of cross-border PPAs and promoting the combination of public support schemes with PPAs.

3. UFE believes that the deployment of long-term CfDs with public hedging such as well-designed two-ways CfDs, when long-term market-based contracting does not achieve public objectives, **could help secure investments in all low-carbon assets,** reduce the costs of these highly capital-intensive investments, and limit the impact of price volatility for consumers.

4. Securing long-term investments in low-carbon technologies:

CfDs already exist in France for some renewable assets taking the form of additional remuneration. This support system for renewable energies is seen by the European Commission as a transitional exemption allowed under the State aid guidelines. UFE advocates for CfD awarded through competitive procedures **to be recognised as a sustainable development mode accessible to all low-carbon technologies-production and flexibilities**, alongside the deployment of PPAs.

CfDs will need to be adapted to the different sectors, allowing producers to maintain their economic balance and incentivising operators to maximise the value of their assets for the grid – optimisation of the availability of the output and its placement.

5. UFE recommends maintaining the ability of capacity mechanisms to ensure security of supply.

The capacity mechanism is a key part of market design and will become increasingly essential as variable power generation increases.

Approval under State aid rules is necessary for the introduction of capacity mechanisms and can create uncertainty regarding their stability. UFE requests that capacity mechanisms be structurally integrated into the future market design by implementing a simplified and automatic approval process subject to compliance with standard criteria.

6. UFE calls for an enhanced framework that provides consumers with greater stability on their bills and more direct access to the benefits of low-carbon energy production.

Improving the liquidity of future markets and developing PPAs should help improving consumer coverage against price fluctuations. CfDs as such do not provide price stability to consumers, but in times of high prices, they provide income to Member States, allowing them to compensate or mitigate the impact of prices for consumers by redistributing the gap between the reference price and market prices. UFE **calls for a modification of article 5 of the Electricity Directive (EU) 2019/944 so that the gaps in the market (gains and costs) of CfDs with public counterparties** can be returned to all national consumers (residents, communities, businesses, and industries).

A well-designed market framework **should avoid exceptional taxes** such as the contribution on infra-marginal rent, which risks **hindering investments in low-carbon energies needed to achieve the decarbonisation objectives of the European Union**.

7. UFE recommends measures to improve the retail market and develop consumption flexibility.

The crisis has shown that both suppliers and customers can be put at risk by significant increases in electricity prices on the markets. UFE recommends **the establishment of a national regulation to govern supplier risk policies**, to be defined through consultation. It could require that suppliers demonstrate that they have an appropriate organisation and tools to control risks.

While the preference for longer-term contracting to ensure price stability is important, **suppliers must remain free to set their commercial and coverage policies suited to their customers portfolio**. It is worth considering the risks that suppliers may face if consumers have the ability to exit long-term contracts in response to changing short-term retail market conditions.

8. UFE also calls for greater flexibility on the demand side and emphasizes the facilitating role of networks.

UFE recommends redefining in European texts the notion of “dynamic electricity offer” in a way that is more adapted to current customer use and suggests that they could include "dynamic" contracts which, without total indexation on the spot price, reward customers who consume less during peak hours.

UFE highlights the possible optimisation gains thanks to good coordination of production/consumption/storage/load-shedding enabled by the grid. UFE recommends implementing an **adequate market framework to develop flexibilities** adapted to the needs of the power system and to maximise the benefits of the deployment of smart meters in terms of flexibility and data use.