# Emergency interventions in EU electricity markets

**Chaire European Electricity Markets (CEEM) conference**
***Emergency interventions in electricity markets: which long term legacy?***

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CHAIRE EUROPEAN ELECTRICITY MARKETS

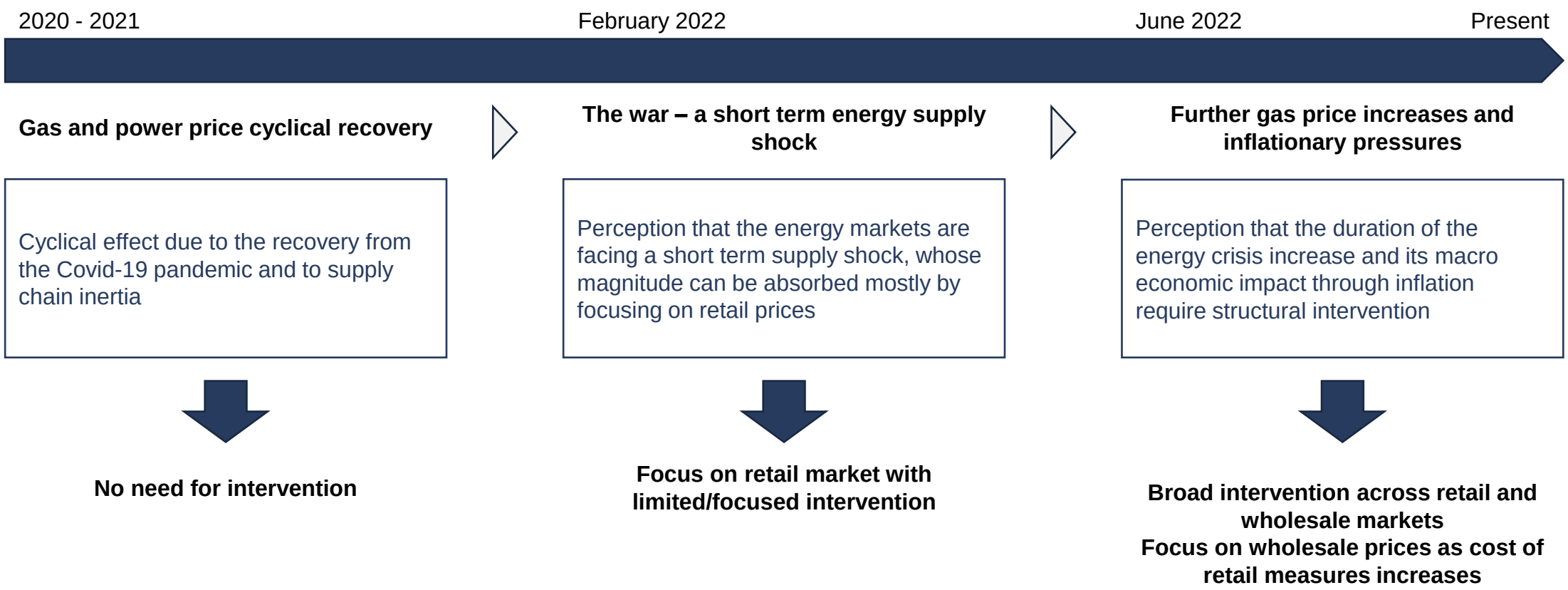
RTE EDF epexspot TOTAL direct energie

# Agenda

- Context to the emergency interventions: The three phases of the crisis
- Electricity Market Interventions agreed on during the 30 September 2022 Council Meeting
- Inframarginal Price Cap – key implementation issues and risks
- Beyond short-term measures, a long-term market reform is foreseen

# Context to the emergency interventions: The three phases of the crisis

## The perception of the issue has evolved leading to different types of policy answers



# Electricity Market Interventions agreed on during the 30 September 2022 Council Meeting

**1**
**Temporary demand reductions**

- Member States should aim to reduce **electricity demand by 10%** **between December 2022 and March 2023** with an **obligation to reduce consumption by 5% during peak time.**
- Adjustment compared to the EC proposal: National Governments were granted the freedom to define the number of hours in which savings shall be achieved.

**2**
**Temporary Price Cap on inframarginal technologies**
(detailed on the following slide)

- **A price cap of (max.) 180 €/MWh** on all market revenues of electricity producers of inframarginal technologies
- Adjustments compared to the EC proposal:
  - Applicability (starting in December 2022) was stretched to now June 2023.
  - National Governments were granted broad implementation choices (see next slides).

**3**
**Temporarily allowing below cost electricity prices**

- **Suppliers may exceptionally set electricity prices below cost**, given that certain criteria are met (e.g. temporary nature, no discrimination between suppliers, compensation for suppliers)

# Inframarginal Price Cap – key implementation issues and risks

## The EC's proposal was substantially adjusted to provide more leeway to Member States in implementing the price cap – potentially leading to various uncoordinated national implementations.

**General principle is a 180 EUR/MWh price cap**

**Applicable to the following generation sources**

- Wind energy
- Solar energy (both thermal and PV)
- Geothermal energy
- Hydropower without reservoir
- Biomass fuels, excl. bio methane
- Waste
- Nuclear energy
- Lignite
- Crude petroleum
- Peat

**NOT applicable to the following generation sources**

- Gas
- Coal
- Demand-response
- Storage
- Bio methane
- Hydropower with a reservoir

**BUT: Member States may decide…**

…**not to apply the price cap** on the balancing energy market and for Redispatching & Counter-trading revenues.

…to **go beyond the price cap**, introducing measures that further limit the revenues of any market participant.

…to **introduce differentiation between technologies** in the implementation of the Cap.

...to set a **specific cap for hard coal**

… to **partially apply the price cap**, covering only 90% of the market revenues higher than the cap.

…to **set a price cap** (or other national measures) **for energy sources that are exempt** in the Commission's Price Cap

…to **set a higher cap** for technologies with investment / operating costs beyond 180 €/MWh

…to **exempt hybrid plants** that use conventional energy sources, if the Cap could increase CO2 emissions.

**Provided implementations…**

…are **proportionate and non-discriminatory**

…do **not jeopardise investment signals**

…ensure that **investment & operating costs are covered**

**…do not distort wholesale markets, Merit Order & price formation**

…are **compatible with EU law**

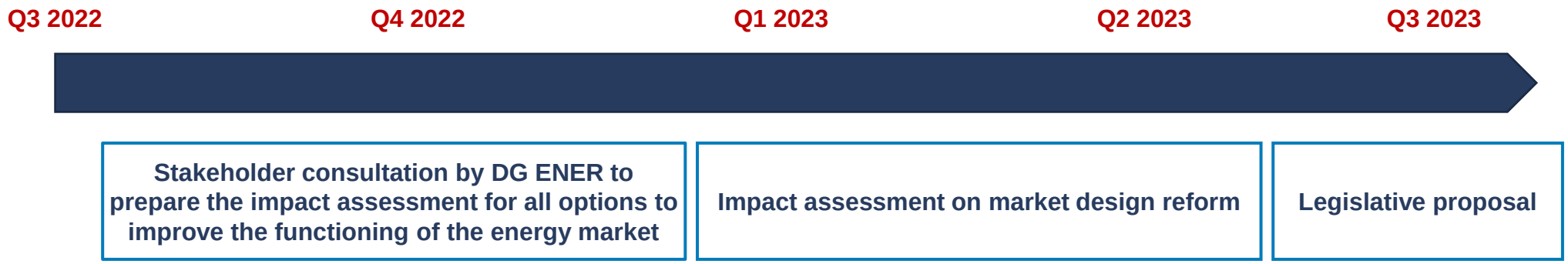
# Beyond short-term measures, a long-term market reform is foreseen

## The Commission is working on a more structural reform of power markets expected for Q3 2023

The agreed timelines for the short term emergency measures cover the first half of 2023, with a review by April 2023.

However, uncertainty around the geopolitical energy crisis related to the invasion of Ukraine is likely to have an impact on the regulatory framework in 2023, and potentially challenge the timelines that were agreed at the EU level.

The long term market reform is an opportunity for defining a new market model coordinated at the EU level that integrates the shift in policy objectives due to the recent energy crisis. We present below our understanding of the EC timeline for this reform:



# Thank you for your attention

# Contact details

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# Next CEEM event: Toward a new electricity market model - how to decouple electricity pricing from short run wholesale prices?

- Date : Monday 5, December 2022 from 2:30 pm to 7:30 pm
- Place : Room Raymond Aron - Université Paris Dauphine-PSL, Place du Maréchal de Lattre de Tassigny, 75016 Paris
- Objectives:
- Whilst the market failures or missing markets that affect electricity markets have been covered in great depth in the economic literature, the historic target model defined in 1980s has remained the basis for Europe's liberalisation and integration of power markets in the past two decades.
- A range of alternative market proposals have been proposed in recent months, and the policy momentum seem to be building up as the European Commission announced that it will consider a wide-ranging reform of electricity markets.
- In this context, the conference will aim to review the different proposals for alternative market models that could be put in place, and the extend to which they can address the policy objective of "decoupling" the end user prices from the wholesale market short term price signals.