

EU CLIMATE POLICY and ELECTRICITY MARKET

Draft Agenda

*This meeting is under Chatham House Rule.
Some speakers are still being confirmed.*

Date: June 27, 2023

Time: 14:30-16:30 (CET)

Location: Hybrid Webinar, **61 Rue Archimede, Brussels**

The ERCST workstream on “EU Climate Policy and Electricity Market” provides analytical input on the interactions between EU climate policy and electricity market. ERCST has developed a framework matrix (Annex 1) for analysing the elements of the EC proposal on electricity market reform through a climate change lens.

Following on this preliminary work, ERCST is now focusing on discrete interaction’s cells of this matrix framework. During our last month event, the focus was given to short term pricing mechanisms (both the EU marginal pricing mechanism and emergency market interventions).

In this coming event, the attention will be given to medium (CRMs) to long term markets and instruments and markets (CfDs, PPAs, and forward markets) and their interactions with relevant climate policies (ETS, RED...) to understand whether/to which extent these provide signals for decarbonization.

To reduce its dependence on Russian fossil fuels, the EC has introduced REPowerEU in May 2022. Gaz supplies reduction by Russia is the main cause of the recent skyrocketing gas prices in the EU, which have impacted the price of electricity produced in gas-fired power plants and affected electricity prices overall: the EU wholesale electricity market is based on a marginal pricing system, and gas-fired plants are often the marginal unit.

This situation has led to unreasonable windfall profits for some electricity generators and consumers paying far more for their electricity than is justified by the cost of production. As the price of energy was expected to remain in the EU, emergency market interventions were then introduced by the Council Regulation (EU) 2022/1854 in October 2022.

Beyond these short-term measures, the process towards an electricity market reform for the medium to long-term has also started.

To address the social and economic impacts of the energy crisis, the EC published in March its proposal for reforming the EU electricity market design to boost renewables, better protect consumers and enhance industrial competitiveness.

The greater penetration of renewables-based generation in the electricity system poses challenges (reliability, variability, predictability,) which means that the system needs to keep reliable sources in reserve. Moreover, the increasing penetration of renewables are going to change the price pattern on short-term markets (zero or near zero marginal production cost), which may be hampering the fixed-costs recovery of generation capacity. Capacity remuneration mechanisms have been introduced in Member States and are now debated at the European level.

The EC proposal also aims at enhancing the viability of long-term contracts, while preserving the current framework of the EU wholesale electricity market based on marginal pricing. The development and enhancement of long-term contracts between suppliers and consumers can

help bring greater certainty into bills and spur the much-needed investments in the renewable sector.

This meeting will start by a presentation by ERCST which will provide the discussion background. This will be followed by preliminary remarks from the European Commission and the European Parliament. Will then follow a panel discussion during which speakers will share their views and provide their opinions on the proposal. Interventions and debate from the audience will take place during the following Q&A session.

14:30 **Welcome and Introduction - Opening remarks**

- Andrei Marcu, Executive Director, ERCST

14:40 **Preliminary Remarks**

- Nicolás Gonzales Casares, Group of the Progressive Alliance of Socialists and Democrats, European Parliament (*confirmed*)
- Catharina Sikow-Magny, Director for the Green Transition & Energy System Integration, DG ENER, European Commission (*confirmed*)

15:10 **Panel Discussion**

The key questions to be addressed in the panel session are the following:

- To which extent medium to long-term instruments and markets (CfDs, PPAs, forward markets), in interaction with climate policy (ETS, RED and/or others if applicable) provide long-term signals for decarbonisation? Are those providing the necessary tools for decarbonisation?
- How do carbon and capacity markets interact? Do capacity remuneration mechanisms provide long-term signals for decarbonisation?
- What is the right balance between these short- and long- term mechanisms for providing the right decarbonisation signals?

Moderator: Andrei Marcu, Executive Director, ERCST

- Olivier Imbault, ERCST
- Teresa Luis, Endesa
- Alain Taccoen, EDF
- Daniel Wragge, EEX
- Nicolai Romanowski, Cefic
- Adolpho Aiello, Eurofer

16:10 **Q & A**

16:25 **Concluding remarks & end of the meeting**

ANNEX I- Framework Matrix – Overall Results

<i>Desirable Outcomes</i>	A. Short-term signals for decarbonization	B. Long-term signals for decarbonization	C. Competitiveness	D. Affordability	E. Security of Supply
<i>EMD Provisions</i>					
1. Short-term Pricing Mechanisms					
1. i) Marginal Pricing					
Marginal Pricing Mechanism	+	0	0	0	+
1. ii) Market Interventions					
Iberian Exception	-	-	+	+	0
Inframarginal Revenue Cap	-	-	+	+	0
Windfall Profit Tax	0	-	+	+	0
2. Medium to Long-term Instruments					
PPAs, CFDs, Forward Markets	0	+	+	+	+
Capacity Remuneration Mechanisms	+	+	+	+	+
3. Flexibility Options					
Flexibility Options (Storage and Demand Side Management)	+	+	+	+	+