



# **From the implementation of emergency interventions to the review of market design: how two years of energy price crisis have changed the European electricity market**

26/05/2023

# The energy price crisis

Context and UE response: from orthodoxy...

Spring 2021-

- Supply-demand tension in Post-COVID recovery
- **Spain, first country where the crisis impacts public opinion due to a regulated tariff that is a direct pass-through of the spot price**

The Iberian exception



# The energy price crisis

Context and UE response: ... to intervention



## Some key topics

**Is the marginal market a design choice?**

**The relevance of the spot market**

**Windfall profits**

**Do interventions distort the market?**

**Should interventions evolve into permanent design?**

# The market design reform

Radical proposals seem to be out of the picture



## Wide agreement on:

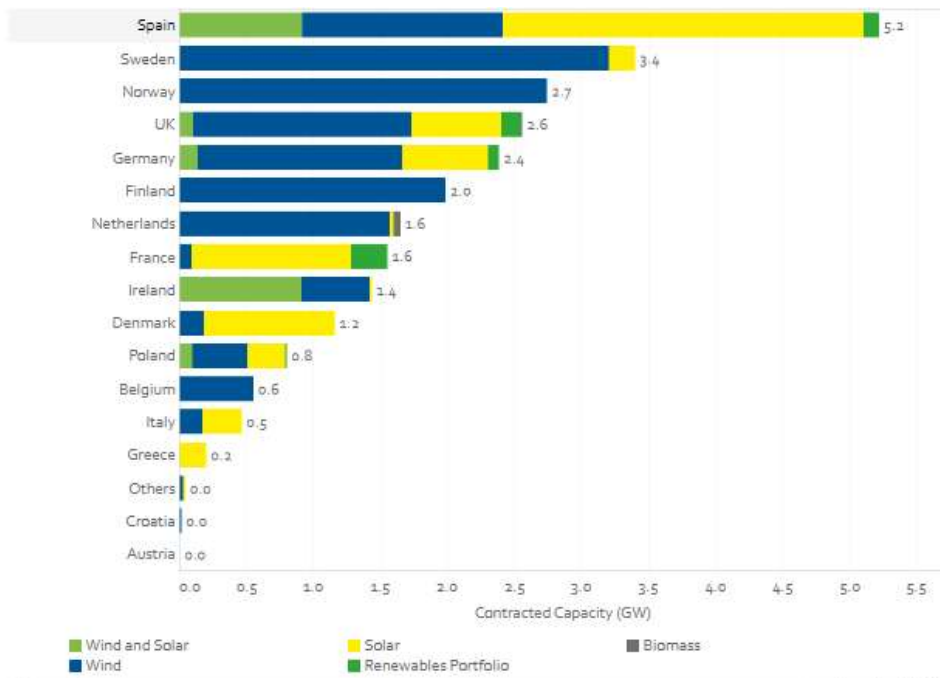
- Preserving the **short term marginal market**
- Increase liquidity in **forward markets**
- Promote **long term contracts** (time horizons similar to those of generation projects)

## Different views regarding:

- **Extending the emergency interventions** and other **measures on existing generation capacity**
- Private contracting (**PPAs**) vs centralized/public contracting (**CfD auctions**)
- **Design and implementation of CfD** and similar mechanisms
- Increasing liquidity in forward markets: **virtual trading hubs**, more flexible **collateral requirements**
- Measures on retail market: from **regulated tariffs** to **affordability options**
- Measures on retailers: **product obligation, hedging requirements**

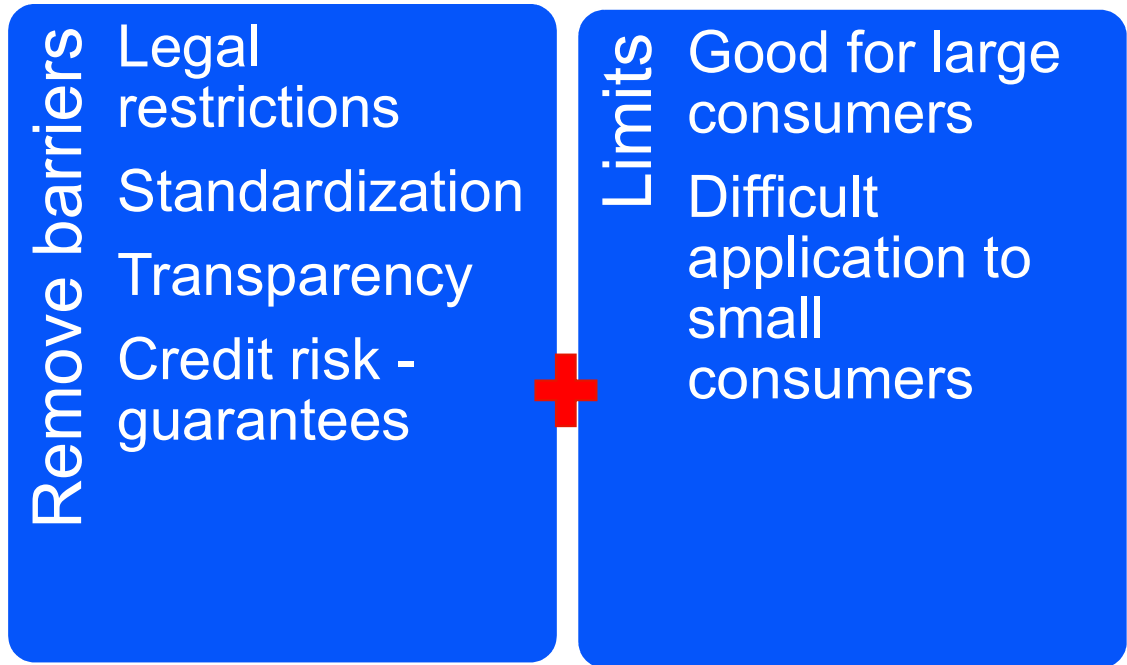


# The challenge of PPAs



Fuente: Re-source

GW (2013-2022)



# Contracts for differences

De-risking new capacity



## Centralized auctions

- Already exist in many countries

## Settlement

- The expectation now: CfD price < market price
- The future: CfD price > market price

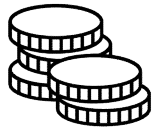
## Design and implementation

- **Traditional: settled against the spot market**
  - Distorts dispatching
  - Removes liquidity from forward market
- **Improvements:**
  - Settle against forward market
  - Settle against theoretical profile instead of actual production
- Technologically neutral?

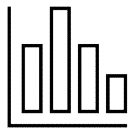
## Settlement of the CfD

- Against all demand
  - Can distort hourly price signal: impact on electrolysers, storage, demand-side response
- Voluntarily among retailers/consumers
  - The gap between CfD duration and end-customer contracts
  - Central counterparty?
  - Obligations on retailers?

## Increasing liquidity in forward markets



○Collaterals



○Auctioning long term transmission rights in the interconnections



○Improve market supervision

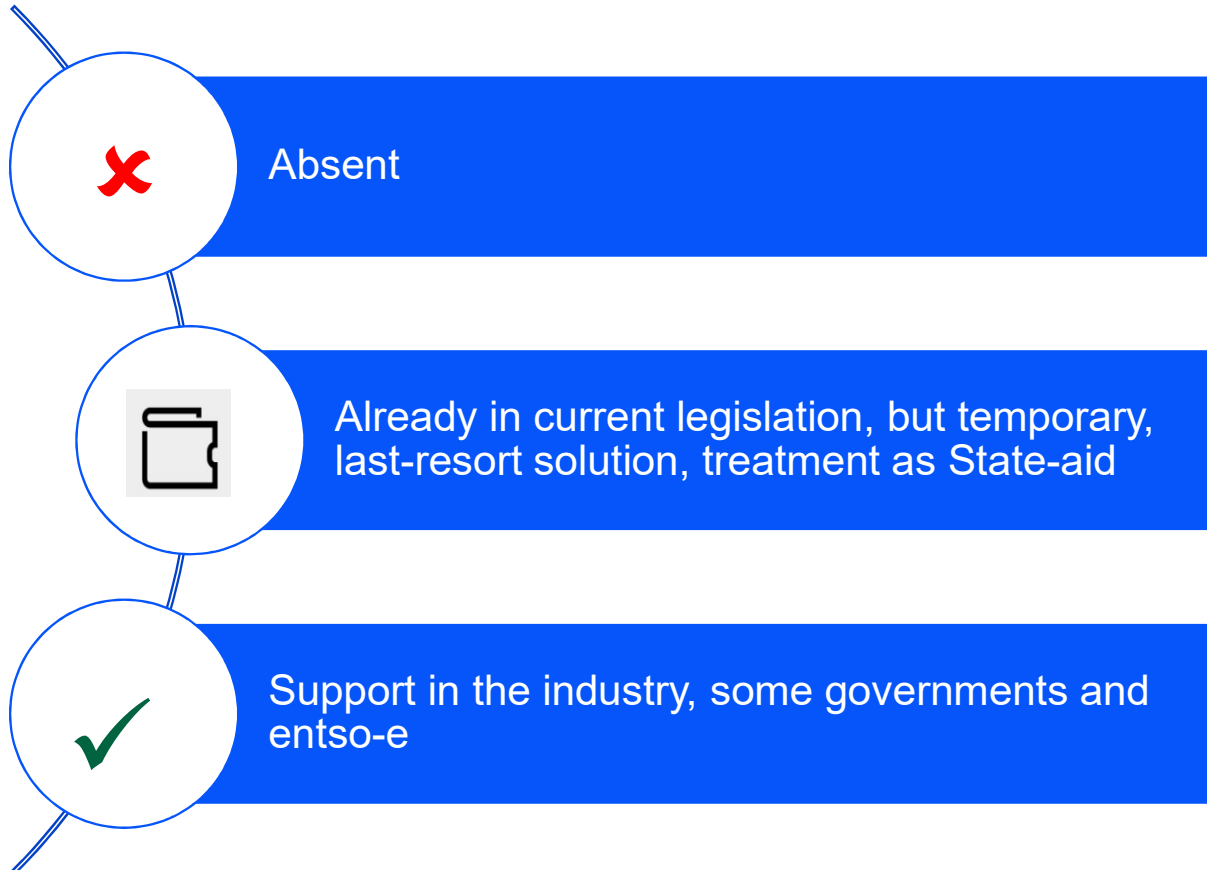


○Market making



# Capacity markets

endesa



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*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.***

# Retail market



Legal limits to long-term contracting

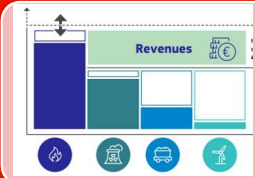


Improving retailers' resilience: from stress-tests to hedging obligations



Others: several meters/retailers, energy sharing

## Interventions on existing capacity



Extend current caps



Extend the Iberian exception



Mandatory CfD at regulated prices