RGI Statement on the EU Electricity Market Design reform

May 2023

The Renewables Grid Initiative (RGI) and its Members welcome the efforts of the European Commission to improve the electricity market design. It is true that over the past decade, the EU electricity market design has enabled the integration of increasing volumes of renewable energy sources (RES), ensuring optimal dispatch of energy production capacities across the European Union. Central to this success has been the deployment and use of interconnectors, which enabled the integration of the EU internal electricity market and the cross-border electricity trade between Member States.

However, the ongoing gas and energy crisis has had a knock-on effect on electricity prices. Coupled with the increasing shares of renewables in the energy system, this poses the question of how the current market design needs to evolve to support timely decarbonisation, reward electrification, and function within – and for – an energy system largely based on variable RES. We acknowledge that a proper implementation of the provisions envisaged in the 'Clean Energy for all Europeans' package will bring benefits. But we also need to ask: How can the electricity market design be improved to better protect and empower EU consumers from excessive volatility in times of crisis while ensuring system security?

In this statement, RGI wants to stress that the discussions about the electricity market reform have to distinguish between two temporal dimensions, the short-term and the medium-, and long-term adjustments. While this distinction makes sense under the current conditions, it should be clear that the short-term adjustments should also be fit for the future and a long-term market design. At the same time we need to start discussing long-term adjustments now, as they may require time to be understood and defined in detail:

(1) Short-term, targeted adjustments are needed to deal with the ongoing energy crisis, and the need to protect consumers from volatile and increasing prices in current and future times of scarcity. Whether the timeline of the current reform and legislative process will allow an effective and timely response to the ongoing energy crisis is questionable. In any case, any short-term design adjustments should be assessed in view of the need to enable and promote a much faster RES deployment and an optimisation at the system level now and in the future.

(2) The medium to long-term market adjustments should further support and promote an energy system largely based on variable RES, sufficiently incentivise investments in renewable power generation and flexibility, and remove existing barriers, whenever present. The discussion about medium to long-term market adjustments should consider measures and or approaches that may not yet be necessary for the current share of renewables.

With this statement, we want to concentrate on a few aspects of the European Commission's legislative proposal on the reform of the EU electricity market design, published on 14 March 2023, and make proposals as well as raise questions which will guide policymakers through the ongoing and upcoming legislative processes.

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In the short-term…

RGI believes that the targeted reform of the electricity market design should urgently recognise and reward consumer flexibility and flexibility services. Barriers to activating flexibility services should be identified and removed for all large and small consumers and in all market timeframes, preferably through existing mechanisms (e.g. ancillary services markets), but if necessary also, through dedicated ones. Consumers should be able to opt for flexible or time-of-use tariffs, linked to the availability of renewable generation. This would bring benefits, especially on the demand side but also at the system level, leading to energy savings, affordable energy, and innovation in consumer-oriented services. To further incentivise the deployment of storage and demand-side response, the currently proposed indicative target for national objectives for demand-side response and storage in Article 19d should be made binding.

Unlocking flexibility from behind-the-meter assets (e.g. heat pumps, electric vehicles, storage devices) and enabling demand response will bring significant benefits for consumers, thanks to new energy services. Leveraging on smart metering and certified submetering devices, a spectrum of retail contracts tailored to the consumers' needs and preferences should be provided. This should allow consumers to combine fixed-price, 'standard' supply contracts for their non-flexible share of consumption, with more dynamic elements.

Transmission System Operators (TSOs) increasingly use and benefit from flexible capabilities of resources including behind the main meters. The additional identification and implementation of flexibility needs for the electricity grid and the energy system at large requires clear rules, preferably at the national level to reflect the specific system characteristics as well as collaboration between different voltage levels. This will enhance market participation and integration of variable RES without compromising the overall safety of the national and European electricity systems.

Promoting effective participation of renewable, storage and demand response resources in ancillary services markets is key to maintaining system security standards. In time periods where flexibility is a scarce resource, the market should enable and incentivise the participation of all grid-connected flexibility resources to guarantee the generation-consumption balance in the electricity system, while aiming at efficiency at the system level.

Moreover, to facilitate and speed up distributed resources and demand response, Member States should provide an updated roadmap for a wide deployment of smart meters and clarify the framework for the use of certified sub-meters. These resources must respect technical limitations in the relevant grid and contribute to ensuring the overall (cyber)security of the power system.

An additional market resource that should not remain underutilised is Renewable Energy Communities (REC). When sufficiently integrated into the grid, they provide additional system flexibility options, while at the same time contributing to lower local electricity costs, increasing local engagement and a broad energy education.

Availability of data is essential to enable the requests above. As much data as possible should be published in an open and timely manner, and access to it should be enabled. In particular, regarding prices on the electricity forward and spot markets, at least the day-ahead, data should be free of charge for all interested stakeholders. Moreover, consumers should be allowed to access their smart and sub-meter data as close to real-time as possible and share this data with any third party of their choice.

Member States should support TSOs in rapidly deploying the necessary infrastructure via fit-for-purpose tariff methodologies, in order to accelerate

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renewable build-up and electrification. The tariff methodologies for TSOs should consider both capital and operational expenditure, including anticipatory investments, in order to provide appropriate incentives for TSOs to invest in the needed offshore and onshore electricity grid, digital infrastructure and tools in view of accelerating energy decarbonisation and empowering consumers.

Member States should request and remunerate TSOs to implement measures for broad communication towards electricity consumers, ahead of specific critical events of limited duration. The ongoing energy crisis reaffirmed the power of information and communication, contributing (substantially) to transparency. We witnessed that sharing best practices with the general public led, among others, to more considerate energy usage and consumer empowerment. Building on this, RGI believes that TSOs are well-positioned to lead communication measures prior to certain events of high importance for the grid operation and the energy system.

All in all, incentives and market mechanisms should facilitate and enable investments in distributed generation and distributed assets as well as large scale ones. Distributed assets will play an increasing role in the decarbonisation process, while enhancing public support, including through reduced electricity bills and the creation of local benefits. However, distributed assets will not be sufficient to protect consumers in moments of crisis and scarcity of resources. Therefore, the support to demand response should also be complemented by smart long-term contracts for different time intervals. This should allow hedging opportunities for consumers, tailored to their needs, and potentially dynamic saving schemes. Moreover, to protect consumers from price volatility, the market design should reward energy savings, demand flexibility and provide clear incentives for long-term contracts and design schemes with strong redistributive elements.

In the medium- to long-term…

A future-proof electricity market design requires a strong vision focusing on electrification and decarbonisation by 2040[1]. Moreover, it needs to weigh up the potential impacts that any pursued measures may have, including direct ones on consumers as well as their natural and economic environment. Strong cohesion between the market design and the network infrastructure within and between national borders has to be guaranteed, amongst others, to optimise welfare and enable solidarity. Moving forward, crisis management measures and potential interventions should be developed through these lenses.

The electricity market design should be driven by a holistic approach and oriented toward delivering the 'best value' instead of the 'least costs', particularly in light of decarbonisation, and environmental and social commitments. This will require completely new approaches, yet to be defined.

RGI acknowledges that fundamental changes in the wholesale markets may be required despite concerns over the implementation of transformative changes. It is, therefore, necessary to consider the option of complementing the wholesale market with Contracts for Difference (CfD) schemes for the Member States and with Power Purchase Agreements (PPA), while further increasing flexibility in forward markets, as viable alternatives. In particular, CfDs should be designed in a way that they do not distort the functioning of the electricity markets through wrong (and eventually more costly) incentives, and it should be also possible to offer CfDs to final electricity consumers as

[1] https://www.pac-scenarios.eu/

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hedging instruments in a market-based way (thus contributing to protecting consumers against future sustained high prices, while keeping the incentive to adapt their consumption and unlock their flexibility according to short-term price signals). Moreover, the revenues coming from two-way CfDs should be earmarked to provide financial protection for vulnerable small consumers and to finance actions that benefit vulnerable households and small enterprises while providing a benefit to the entire electricity system, in particular, improving energy efficiency.

Similarly, the creation of granular locational price signals that better reflect electricity transmission constraints should be further explored, particularly in investment incentive mechanisms for renewables and complementary electricity system services. Other schemes which are currently proposed as compulsory elements of future electricity markets (e.g. 'virtual hubs') should be analysed in more detail before a concrete implementation takes place.

About RGI

RGI is a unique collaboration of NGOs and TSOs (Transmission System Operators) from across Europe engaging in an 'energy transition ecosystem-of-actors'. We promote fair, transparent, sustainable grid development to enable the growth of renewables to achieve full decarbonisation in line with the Paris Agreement.

RGI Members originate from a variety of European countries, consisting of TSOs from Belgium (Elia), Croatia (HOPS), France (RTE), Germany (50Hertz, Amprion, TenneT and TransnetBW), Ireland (EirGrid), Italy (Terna), the Netherlands (TenneT), Portugal (REN), Spain (Red Eléctrica) and Switzerland (Swissgrid); and the NGOs Bellona Europa, BirdLife Europe, Climate Action Network (CAN) Europe, Ember, France Nature Environnement (FNE), Friends of the Earth Ireland, Fundación Renovables, Germanwatch, Legambiente, NABU, Natuur&Milieu, the Royal Society for the Protection of Birds (RSPB), WWF International and ZERO. Europacable and IUCN are Supporting Members.

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