

Non-paper on energy and electricity & gas markets - November 2021

On 21 October, the European Council addressed the recent spike in energy prices and considered the impact of these price rises on citizens, households and businesses, especially those striving to recover from the COVID-19 pandemic.

The European Council invited the Commission to study the functioning of the gas and electricity markets, as well as the EU ETS market with the assessment of the European Securities Markets Authority (ESMA). Subsequently, the Commission will assess whether certain trading behaviours require further regulatory action.

The present joint statement aims at contributing to the necessary debate on the functioning of electricity and gas markets, by urging the quick implementation within the Energy Union of ready-to-use proposals to face sharp spikes in energy and carbon prices, while maintaining the focus on the green economic recovery and carbon neutrality.

We need to ensure that electric energy consumers fully share the benefits of zero emissions technologies starting from now, while avoiding excessive volatility of natural gas markets

1. We must act in the short term, in order to ensure that consumers perceive the benefits of zero emissions technologies in price signals while protecting them from the increasing volatility of natural gas markets. Therefore, we propose to amend article 5 of the Electricity Directive in order to allow Member States to enforce regulatory mechanisms, designed at UE level, ensuring that final consumers pay electricity prices that reflect the costs of the generation mix used to serve their consumption.

These mechanisms, based on financial transfers between producers and consumers, would have no effect on the functioning of the wholesale market, nor affect the merit order of the different generation plants mobilised in the energy market on an hourly basis.

This proposal would encourage electrification, maintain in the long run the incentive to finance the underlying zero emissions assets and reduce risk premium for investors and therefore the cost of the shift to a carbon neutral electricity system.

2. Alternatively or simultaneously to the first proposal, in order to ensure that consumers share the benefits of zero emissions technologies, we propose to amend article 9 of the Electricity Directive. This amendment would cover a new case to allow Member States to enforce services of general economic interest designed to ensure to final consumers an access to a zero emissions and competitive electricity supply that reflects underlying generation costs.

Market regulation must be adapted to the pivotal role of renewable energies in the 2030 horizon

3. In the medium and long-term, renewables will be pivotal in the European electricity market and the intermittent nature of many of these technologies must be dealt with in the appropriate manner. Current market design might not be future-proof, making it necessary to start without delay, an in-depth assessment of the suitability and functioning of the internal electricity market for the 2030 horizon. In addition to the

work performed by ACER, a broad stakeholder consultation should be launched in order to identify, within six months, necessary reforms of current power market in order to make it future-proof and suited to the 55% target. Based on these conclusions the Council shall define, before the end of 2022, main market reform priorities, to be implemented before 2025.

We need to reinforce the electricity consumer protection

4. To revisit article 11 of the directive related to dynamic electricity price contracts, to enforce appropriate warnings for consumers of the risks associated with these types of offers; risks that unfortunately we observe currently. Without this type of information obligation, current directive appears too promotional of these types of retail contracts, which could lead consumers to take risks they cannot manage, or at least risks that they are not aware of.
5. Besides, to introduce in the electricity directive a right for household consumers to request a supply offer that protects them from short-term electricity price variations. This could be achieved by enforcing electricity retailers to offer, among their commercial offers, at least one contract based on a cautious sourcing strategy – for instance, a progressive purchase of electricity over one or two years before delivery-. Incentives to energy efficiency shall be preserved through moderate variation under this base price or through the intervention of demand response operators that will be able to value the difference between the base price and wholesale prices.

We must facilitate the development of long-term electricity contracts based on zero emissions energies

6. Dedicate regulatory efforts, at the European level, to facilitate the development of long-term electricity contracts based on zero emissions energies covering more than 3 to 4 years, which is currently the longest period tradable on the futures market. Such long-term contracts, covering a contracting period of five to ten years is essential to trigger market-based new investments in zero emissions assets, investments in energy efficiency, and in electrification of consumption by consumers.

European citizens, enterprises and industries shall have a continuous and stable gas supply at affordable prices

7. A set of measures shall be taken to address the observed gas market failures and to ensure a continuous and stable gas supply at affordable prices to consumers.
8. Regulations shall ensure a high rate of utilisation of our gas and Liquefied Natural Gas (LNG) storage facilities and therefore strengthen our security of supply and allow a more efficient functioning of gas markets.
9. In addition, we call on the European Commission to explore a voluntary joint procurement/centralised gas purchase mechanism of ‘option contracts’ by competitive auctions. This mechanism would guarantee additional upward flexibility in order to improve security of gas supply by ensuring additional volumes of gas at affordable prices.