



Electricity market design

Mitigating the impact of high gas prices on electricity bills, protecting consumers and boosting RES investment

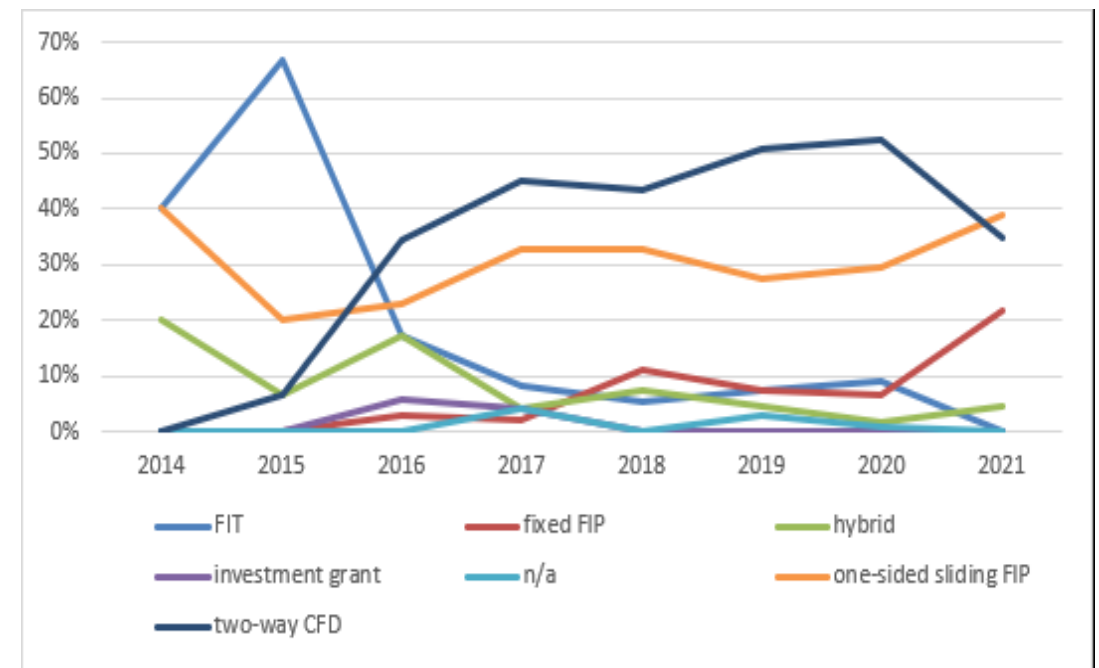
Objectives of the reform

- 1. Better protect and empower consumers**
- 2. Enhance stability and predictability of the cost of energy contributing to the competitiveness of the EU economy**
- 3. Accelerate the integration of renewables with flexibility services**
- 4. Better market monitoring and surveillance (REMIT)**

CfD (Art. 2 and Art 19b Reg): State of play

- Public funding remains necessary for a large share of renewables and for most nuclear investments
- Different forms of public support used, in particular as regards renewables
- Not all forms of public support ensure that the relevant capacity operates independently from the short-term marginal price (decoupling)
- Smart design of two-way CfDs essential to avoid market distortions.
- Move towards two-way CfDs

Distribution of renewables auction per support scheme (2014-2021)



Source: European Commission analysis based on Aures2 dataset for 17 EU countries

CfD (Art. 2 and Art 19b Reg): EU Framework

- REDII in Art. 4 to 6: includes the main design principles for support schemes for renewables. Notably they must:
 - Provide incentives for the integration of electricity
 - Ensure that renewable energy producers respond to market price signals
 - Support granted through open, transparent, competitive, non-discriminatory and cost-effective procedures
 - Support schemes using a **sliding** or a **fixed** market premium
 - Member States cannot modify existing support schemes to the detriment of the beneficiary
- Additional set of principles established in State Aid Guidelines (CEEAG and TCTF)
- Currently no comparable legal principles applicable to nuclear investments

CfD (Art. 2 and Art 19b Reg): Proposals

2-way CfD (new definition in Art 2 and new Art 19b in Electricity Regulation)

Art. 2

- ‘two-way contract for difference’: contract between a generator and usually a public entity, that:
 - provides both minimum remuneration protection and a limit to excess remuneration. (not necessarily 1 strike price)
 - contract is designed to preserve incentives for the generating facility to operate and participate efficiently in the electricity markets and complies with the principles set out in Article 4(2) and Article 4(3), first and third subparagraphs, of Directive (EU) 2018/2001

Art.
19b

- Direct price support schemes for new investments in wind, solar, geothermal, hydro without reservoir and nuclear shall be in the form of 2-way CfD.
- The revenues collected by the State shall be redistributed equally to all consumers (same refund per MWh of consumption).
- Avoid that redistribution removes incentives to decrease consumption when prices are high and avoid that it undermines suppliers' competition.

CfD(Art. 2 and Art 19b Reg): interaction with REDII, NZIA and Wind Action Power Plan (WPAP)

- Art 19b on EMD complements renewable support scheme design principles under REDII (Art 4 & 6)
- EMD also modifies Art 4(3) to make direct support schemes under the list of Art 19b to be in the form of 2-way CfD
- Commission proposal on the Net Zero Industry Act includes other sustainability and resilience criteria for renewable tendering procedures.
- Action 4 of the WPAP: to provide Guidelines and Recommendation on auction design

Thank you