WindEurope priorities on the EU legislative proposal on Electricity Market Design

The energy crisis resulting from the Ukraine war has put the European economy under severe strain. This has prompted National Governments to intervene on Energy Markets to address very high energy prices and support European families and businesses.

Europe has so far failed to propose a joined-up policy response to the energy crisis, leading to fragmented and uncoordinated interventions. This can undermine the very fundamentals of the internal energy market.

Beyond the context of the present crisis, the transition to climate neutrality requires a regulatory framework that makes electrification the natural choice for industry and households, and passes on the benefits of renewable electricity generation to all consumers. Ultimately consumers must be at the centre of Europe's Electricity Market reform.

To this end, Europe's Market Design must 1) send the right investment signals to deploy wind at scale 2) guarantee energy security 3) ensure a cost-effective management of a fully decarbonised energy system.

The industry recognises the political imperative, which makes it all the more important to proceed at a sensible pace with appropriate consultation of industry and other stakeholders. In view of the upcoming legislative proposals, we call on the EU to consider the following:

1. <u>The current energy crisis is not driven by Market Design</u>

Today's energy crisis was not caused by the current design of the internal European electricity market. The market has played its role by revealing a mismatch between energy supply and demand. The resulting very high electricity prices require a targeted policy response addressing the needs of vulnerable households and energy intensive businesses.

It is critical to keep emergency measures, aiming to tackle a geopolitically-driven supply shock, separate from long-term structural measures. These structural measures must focus on delivering a carbon-neutral power sector at the lowest cost to society, while ensuring the security of supply through the electrification of our economy.

- Poorly designed market interventions such as uncoordinated revenue caps should not serve as the starting point for a structural reform of European Electricity Market Design.
- The policy response to high electricity prices should focus on the most vulnerable consumers and may require adjustments in the retail market e.g. expanding access to fixed price contracts.

2. <u>What Europe needs is more home-grown energy</u>

The central response to the current crisis is ensuring more energy supply, in particular with more home-grown renewable electricity generation. Long-term contracts (2-sided Contracts for Difference, Power Purchase Agreements, "10 year plus" futures traded on stock exchanges) will help unlock the investments needed to accelerate new power capacity buildout. Long-term contracts provide energy consumers, asset developers and investors certainty and reduce the impact of short-term fluctuations in prices.

Government-backed Contracts for Difference have proven very effective in de-risking wind investments and building at scale by keeping finance costs low. Crucially, they protect consumers from extraordinary price spikes.

However, this does not mean Government-backed Contracts for Difference should become the only mechanism to invest in wind and other infra-marginal technologies. They should not be set by Governments based on a cost+ model, nor should they be imposed on existing projects.

Other instruments such as corporate renewable PPAs or forward markets deliver similar benefits to energy consumers. It is critical that there is space for such market-driven instruments.

There are already cases where Government-backed Contracts for Difference are combined with Corporate renewable PPAs. This is the case of the Seagreen offshore wind farm in the UK. The EU framework should allow for the development of such innovative models which will ensure a cost-effective deployment of wind energy.

- The EU Market Design reform should enable the development of all types of long-term contracts and not rely exclusively on Government-backed Contracts for Difference to deliver the benefits of renewables to consumers.
- The EU should incentivise the development of Government support mechanisms that allow combining Government-backed Contracts for Difference and market driven revenue stabilisation mechanisms such as corporate renewable Power Purchase Agreements.
- Removing barriers to and encouraging corporate renewable PPAs is a priority.

3. <u>Short term wholesale markets based on marginal pricing and the merit order are essential</u>

Short-term wholesale markets (based on the marginal cost approach) are very efficient in reflecting the real value of electricity at a given time. Short-term wholesale markets should remain the main mechanism for ensuring cost efficient power plant dispatch and settlement of electricity market contracts.

- The EU Market Design reform should safeguard the functioning of liquid and efficient short-term markets.
- The reform should ensure the functioning of short-term markets is not distorted by revenue caps and other uncoordinated market interventions from National Governments.

4. <u>Europe needs energy security instruments that safeguard climate action</u>

Long-term adequacy mechanisms (Capacity Remuneration Mechanisms) will be needed, notably to unlock the potential of electricity storage. They should be limited to providing the required adequacy based on a system adequacy assessment and designed to minimise distortive impacts on energy markets. Capacity Remuneration Mechanisms design should allow for cross-border solutions and should be fully consistent with the delivery of climate neutrality.

- Capacity Remuneration Mechanisms should be technology-neutral, based on a system adequacy assessment, and allow domestic and cross-border demand side response, storage and renewable generators' participation.
- Capacity Remuneration Mechanisms should meet an emissions performance standard starting from the European Investment Bank (EIB) lending policy standard and decreasing over time.

5. Without electricity grids there is no energy security for Europe

The accelerated deployment of electricity grids is an absolute priority. Europe has underinvested in its electricity grids in the last decade. System operators, renewable asset developers, technology suppliers and end-users need deeper cooperation since the early design stages to accelerate grid development and, where necessary and appropriate, renewable hydrogen infrastructure.

- National Regulatory Authorities should create targeted mechanisms to minimise grid built-out delays in line with national electrification and decarbonisation targets. Transmission and Distribution System Operators (TSOs and DSOs) must quickly release grid capacity for renewables with temporary connection contracts subject to operational limitations (until build-out is on track) and with immediate grid optimisation projects that can be fast tracked additionally to ongoing grid expansion or reinforcement.
- Member States should design national or regional auctions for renewables co-located with electricity storage or with demand (e.g. electric vehicle charging stations, combined renewables plants, renewable hydrogen) in highly congested grid areas or weak grid areas.
- TSOs and DSOs should design and procure flexibility and grid support services with a long-term perspective (based on long-term contracts and technology-neutral auctions e.g. UK Stability Pathfinder programme) in line with climate neutrality targets to incentivise investments in clean flexible assets. To make flexibility investments viable, service providers should be adequately remunerated for (1) developing assets with such capabilities, (2) reserving power to be available to offer the service when required, (3) the energy used to provide each service.

6. Europe's Market Design must enable the massive deployment of offshore wind, alongside onshore wind

Offshore wind could meet 17% of Europe's power needs by 2050[1]. But this cannot happen with today's approach to grid development and Market Design. In particular, market rules must empower developers and TSOs to connect offshore wind farms to two or more markets, saving space, resources and helping the balance the energy system. These offshore hybrid assets could be up to one third of all offshore wind capacity by 2050.

- European market rules should enable investment in offshore hybrid assets by appropriately sharing risks, costs, and benefits between developers, grid operators, and society.
- The long-term market design should enable the co-existence of operating offshore hybrids in their own "offshore bidding zone" or in their "home-market" bidding zone according to national circumstances.
    - For the Offshore Bidding Zone set up it is crucial that Art. 19 of the Electricity Regulation allows for congestion revenue distribution to wind developers. This revenue sharing will not lead to cross-subsidisation from grid charges or overcompensation. And it is necessary for projects coupled with renewable hydrogen.
    - For the Home-Market set up it is crucial to allow exceptions from the 70%-rule (Art. 16) for the entire lifetime of the project.
    - Regardless of the market set up, the European Commission should table proposals for a Transmission Access Guarantee (TAG) that ensures that e.g. offshore wind farms are compensated when congestions occur in the electrical systems which the offshore hybrid is connect to and TSOs reduce interconnection capacity to solve such congestions.

[1] ETIPWind 2021, Getting Fit for 55 and Set for 2050. https://etipwind.eu/publications/getting-fit-for-55/