

## Eurogas reaction on ongoing revision of the Electricity Market Design

Over the last year, high and volatile energy prices for both gas and electricity have constituted a significant burden for European economies. We support the Commission's decision to move forward with a targeted reform of the Electricity Market Design that preserves the benefits of the Internal Energy Markets. In light of the ongoing work on the EMD revision in the Council and Parliament, Eurogas would like to emphasise a set of key issues that must be tackled to ensure the existence of well-functioning energy markets:

- **The preservation of short-term wholesale markets based on marginal pricing.** Notwithstanding the unique circumstances of the energy crisis, electricity markets based on marginal pricing have enabled efficient dispatch, including across-borders, and spurred investments in renewable and low-carbon energy sources. We welcome the decision of the European Parliament, Council, and Commission to maintain the marginal pricing system.
- **The role of long-term solutions in driving renewable and low-carbon investments.** The Commission's proposal acknowledges the role that PPAs, CfDs and forward hedging could have in fostering new investments in renewable and low carbon technologies. These tools – if designed correctly and used on a voluntary basis and according to their relative benefits – are key to achieve a cost-effective decarbonisation of the EU economy and can reduce the impact of short-term volatility on energy prices. Regarding CfDs, we believe that Member States should have the autonomy to rely on additional and equivalent mechanisms that might be deemed appropriate for delivering the required benefits on a national level. In the case of two-ways CfDs, Member States should be allowed to decide on the redistribution of generated revenues (which might be used, for example, to support consumers).
- **The institutionalisation of emergency measures.** Eurogas supports the Commission's decision to refrain from institutionalizing emergency measures in the Electricity market design, particularly regarding the limitations on revenues for inframarginal generators and demand reduction obligations. However, we express serious concerns about amendments proposed by the Council and EP that seem to contradict this direction. The application of the inframarginal revenue cap resulted in a patchwork of imprecise national measures (especially different cap levels), which is undermining the stability of the internal energy market and cross-border competition. In the long-term, revenue limitations and regulatory uncertainty will negatively impact European efforts towards a net-zero economy, in that they undermine investors' confidence and reduce investment incentives in renewable and low-carbon technologies. The Commission's decision (July 5) to phase out such mechanisms serves as a notable example of the temporary nature of such measures. The Fitfor55 legislative package remains the appropriate vehicle to promote energy efficiency measures and reduce energy demand in line with EU climate ambitions.

- **The procurement of peak shaving products by TSOs.** We welcome the acknowledgement by the Council and the European Parliament of the necessity to thoroughly evaluate the feasibility and implications of such mechanisms before their introduction. While Eurogas agrees that peak shaving products can have a positive impact on wholesale electricity prices, we do not support its introduction as an ancillary service of TSOs outside the existing market. The latter is more suitable to provide efficient signals for peak shaving products. The benefits of a parallel market for peak shaving products, exclusively dedicated to demand response and managed by regulated entities, are unclear compared to the scenario where all options compete on the balancing markets.
- **The establishment of regional virtual hubs.** We welcome the questions raised by some Members of the European Parliament regarding the feasibility of establishing regional virtual hubs within the current revision of the market design. Without adequately taking into consideration grid congestions, regional virtual hubs bring significant risks for TSOs, grid users and market participants. Virtual hubs do not reflect physical grid constraints between bidding zones and virtual hubs. We believe that the introduction of regional virtual hubs must be preceded by a proper impact assessment, where potential risks and benefits are considered.
- **The narrow scope for flexibility solutions.** Eurogas welcomes the proposed changes in the European Parliament that re-introduce the concept of system integration, encompassing gas, hydrogen and electricity systems when discussing system flexibility. The integration of growing shares of variable renewable energy into the energy mix and the gradual electrification of end user sectors will bring several mid- to long-term challenges for the European electricity sector, making power-generation more climate dependent and increasing overall peak electricity demand. The decarbonisation of the electricity mix must go hand in hand with the need for flexible and reliable capacity solutions to maintain the security and quality of supply. Whilst we recognise the relevance of demand side response and storage for providing such flexibility, we reiterate the importance of recognising the pivotal role that gaseous energy, including biomethane and hydrogen, can have in providing dispatchable energy and long-term flexibility. Technological neutrality in energy markets (including capacity markets) is key to ensuring system flexibility and adequacy and a wide range of technologies will be needed to answer the increased need for flexibility. The integration of electricity, methane and hydrogen infrastructures provides a wide range of opportunities to solve short term and seasonal flexibility needs in a net-zero energy system. Sector coupling allows leveraging synergies and leads to a more cost-efficient decarbonisation process, as it lowers the overall investment needed for reinforcing or expanding electricity infrastructure. In the future, gas-based technologies will deliver carbon-neutral energy by leveraging renewable and low-carbon gases, also in combination with Carbon Capture Use and Storage (CCUS) technologies. Decarbonised thermal generation should be further supported with targeted measures to accelerate the uptake of renewable gases, which will gradually displace the use of fossil gas in the merit order.
- **The opportunity to strengthen the role of capacity mechanisms.** Eurogas welcomes the recognition that capacity mechanisms are a structural feature of energy markets. As non-dispatchable

generation increases, well-designed capacity mechanisms will become essential to respond to the growing need for medium and long-term flexibility. To guarantee system adequacy and the security of energy supply, we believe that capacity mechanisms should be an integral part of the EU single electricity market and included as a core feature (not just a temporary one) to ensure that an adequate level of firm and reliable capacity is built up, retained, and made available. To ensure that the intended purpose of capacity mechanisms is not compromised, it is important to distinguish between the requirements for flexibility and those for adequacy. Any revision of such mechanisms shall take into account that gas-based power generation plays a critical role in the transition towards a carbon-neutral energy system and society. Targeted measures should be taken to further promote decarbonized thermal generation as it will help delivering carbon-neutral energy by 2050.

- **The application of public interventions setting electricity prices below cost.** Eurogas has expressed deep concern on the temporary possibility for Member States to set regulated prices below cost, an emergency mechanism that has been recently mirrored in the Council’s General Approach on the Gas Package. While we recognise the need to better shield consumers from high energy prices and price spikes, we believe that there should be no direct intervention in energy pricing. Interventions in pricing harm not only competition, but also send the wrong price signals to investors and consumers. Targeted measures, via Member States national welfare systems, should always be preferred. Below costs tariffs must always remain a last resort and time-limited option and, if such mechanism was to be introduced, conditions for compensating suppliers and avoid market competition distortions would have to be clearly addressed by the Regulation. In addition, it is crucial to establish clear and specific criteria for triggering these crisis mechanisms, including the possibility of making them more stringent, as outlined in Article 66a. This would help ensure transparency and effectiveness in the implementation of such measures.
- **The introduction of mandatory hedging strategies for suppliers.** While we consider it important that suppliers define appropriate risk management policies, we believe that the establishment of prudential obligations on suppliers to hedge their portfolio will create new barriers as regards market entry, operation, and exit. When it comes to enforcing specific hedging strategies (for example via PPAs), we believe that suppliers should retain their freedom in deciding which hedging strategy is the most appropriate for their operations, which might include – but should not be limited to – PPAs.
- **The obligation for suppliers to offer fixed-price fixed-term contracts.** Eurogas believes that there should be no obligation for suppliers to offer fixed-price fixed-term contracts. Under a well-functioning retail market suppliers normally offer such contracts to consumers. During times of supply disruption and volatile energy prices, consumers may not find fixed-term fixed-price contracts appealing, even if they are available. In case an obligation is nonetheless put on suppliers to offer fixed-term fixed-price contracts or to hedge their portfolio, Member States should be required to grant suppliers the right to charge appropriate termination fees.