

## Balancing Urgency and Caution: Eurochambres' stance on the update of the Electricity Market Design

Over the past year, electricity prices in the EU have increased significantly. The price surge began in the summer of 2021 when Russia reduced its gas supplies to Europe, just as global demand was picking up due to the easing of Covid-19 restrictions. Russia's subsequent invasion of Ukraine and its use of energy sources as a weapon have caused further disruptions to gas supply, exacerbating the problem and driving prices even higher. This price increase has had a severe impact on EU households and the economy.

While the current electricity market design has delivered a well-integrated market, allowing Europe to reap the economic benefits of a single energy market, the energy crisis has exposed some shortcomings. Therefore, the European Commission plans to update the design to address these issues and ensure stable, secure, and clean energy markets. Recently, a consultation was published to reform the market design and better protect consumers from price volatility.

The chamber network supports the review of the current electricity market design and welcomes the initiative to expand renewable energies and prevent bottlenecks on the energy market. These measures address the crucial issues of reducing the dependence on fossil fuels and ensuring a stable energy supply. However, Eurochambres urges caution and advises not to rush the reform as a short-term crisis measure. While urgent action is required to address the current energy crisis, a hasty and complete overhaul of the market may not be the appropriate tool, and it could result in unintended consequences. The European energy market is undergoing a fundamental transformation, and the focus should be on developing a sustainable market model that accelerates the energy transition and adapts to a different energy mix. As the reform is an ordinary legislative process, it could take years to implement. Therefore, the primary goal should be to create a sustainable market model for the long term, rather than addressing the current crisis.

Eurochambres appreciates the use of Power Purchase Agreements (PPAs) for incentivizing renewable energy investment and ensuring a stable energy supply. PPAs provide planning security for generators and consumers and reduce electricity costs. They also hedge against price fluctuations and promote greenhouse gas-neutral electricity procurement. However, we are critical of certain other options, such as extending the revenue cap for inframarginal generators, and do not favour mandatory Contracts for Difference (CfDs). If CfDs are introduced, they should be voluntary and only apply to new generation sources that are not yet market-ready.

On a procedural note, the consultation process raises concerns about the adequacy of the response period and the extent of stakeholder involvement. Given the complexity of the issue and the proposed reforms, the consultation period of only three weeks – a quarter of the length recommended by the European Commission in its own better regulation guidelines – clearly runs the risk of excluding important perspectives and hindering stakeholders from providing meaningful input. The commission intends to publish its final proposal on energy market design within a month of the end of this three week consultation, which raises considerable doubts as to whether the stakeholder input

submitted will be adequately taken into account.

Linked to these concerns, Eurochambres also underlines the importance of a proper impact assessment to evaluate the impact of the crisis and of the proposed reforms, which must be effective and well-targeted if they are to deliver on their objectives. This assessment should consider the impact of the crisis on different parts of the energy sector, as well as the potential consequences of inaction, including the risk of further supply disruptions and price volatility.



Florian Schmalz  
Eurochambres Policy Advisor for Sustainability