Joint Industry Statement
An Electricity Market Design Fit For Net Zero

The Electricity Market Design reform is an opportunity to future-proof the regulatory framework to enable the decarbonisation of the European economy. Indeed, the European answer should be meticulously assessed and strengthen the conditions to foster investments in renewable and other technologies needed to reach carbon-neutrality and improve energy efficiency. This would ensure an affordable energy transition by channelling the benefits of these investments more directly to all European consumers, including energy intensive industries and households as well as Small and Medium sized enterprises and municipalities.

The EU´s Electricity Market Design must contribute to the above-mentioned objective by:

1. **Preserving the benefits created by the present internal energy market**, including wholesale prices which reflect the best use of all available capacities in Europe, greater security of supply and large-scale integration of renewable energy;
2. **Enhancing the customer contracting and engagement framework** by enabling sufficient possibilities for short and long-term hedging as well as enabling and rewarding their flexibility;
3. **Strengthening investors' confidence** to ensure the necessary investments in renewable and other technologies needed to achieve carbon-neutrality, while also keeping the system in balance, fostering sector integration, and contributing to security of supply.

Strong, efficient, and transparent markets with improved liquidity in longer maturities and empowered demand will help secure electricity supply at predictable and more stable cost for consumers. On behalf of some of the major European energy trade associations, the co-signatories urge the European Commission to consider the following recommendations when elaborating its legislative proposal:

- **The benefits of the Internal Energy Market must be preserved:** European cooperation and integration of electricity markets has brought significant benefits over the past 20 years, including creating strong incentives for decarbonisation. This effective framework has been founded on the pillars of cost-efficiency, European integration and competition, all of which remain highly important in facing the current challenges and should be reinforced. In particular, efficient short-term markets based on marginal pricing provide solid price signals for adequate dispatch and contribute to investment incentives for a decarbonised power sector. Initiatives that increase market integration must be pursued, such as flow-based day-ahead market coupling, maximising available transmission capacity for cross-border trade, demand response participation in markets, etc.

- **Regulatory stability should be ensured:** as the current European energy crisis is primarily a reaction to an external supply shock, this reform of the electricity market needs to reflect this detail and be handled with caution to avoid any counterproductive effects. It is an occasion to reinforce the integration of the internal energy market and to strengthen investors' confidence in the regulatory framework to support the needed investments for driving decarbonisation. Emergency measures should be developed on an ad-hoc basis to meet the specific needs of crisis situations and should always be targeted, temporary, and explicitly time-limited. We therefore caution against the institutionalisation of exceptional interventions such as limiting market revenues or imposing regulated prices or revenues.

- **Consumers can be better shielded from soaring prices and extreme volatility situations through enhanced hedging opportunities**:

    - **The best way to ensure price stability is to provide an enhanced customer contracting and engagement framework** to enable sufficient possibilities to hedge and contract, both in the short- and long-term, which also rewards flexibility.
    - We understand the desire to ensure suppliers' viability so consumers can have reliable and affordable access to electricity. However, **prescribing what products suppliers must offer will not ensure the best price and variety of offers for consumers which meet their individual needs and match their willingness to take risks**. The market should remain open to a variety of offers, including offers with short-term incentives such as including time-of-use tariffs, critical peak pricing, dynamic pricing, or dynamic rebates. The European Commission and energy regulators should ensure that customers are properly informed of their rights and proposed offers through the implementation of existing provisions.
    - **Finally, it is key to ensure that incentives for final customers and retailers are aligned**, for example by pairing any fixed price contracts with an adequate mitigation for contractual breach (e.g., cost-reflective termination fees), while maintaining freedom of contracting, right to switch providers, and choice of products.

- **As investments in renewable and other capacities needed to reach carbon-neutrality are key, hedging opportunities and long-term contracting should be incentivised:** Forward hedging, PPAs, and CfDs, all have a role to play to de-risk investments and mitigate exposure to short-term volatility for consumers. If well designed, these instruments present different but complementary hedging purposes that could be adapted to a wide range of customers' needs and preferences. For this, it is important that:

    - **First, barriers to access such market-based tools should be removed and participation should remain voluntary.** As a key prerequisite, barriers to long-term hedging and supply in forward market should be removed to ensure all parties have sufficient access. Notably, the reform should support liquidity in forward markets, by extending the catalogue of eligible collaterals, e.g by extending non-cash collateral options to non-collateralised bank guarantees.

  - **Second, where investments are not forthcoming on a market basis, voluntary two-way CfDs and similar arrangements, determined through process in accordance with competition law jurisprudence, can be effective complementary tools**: they should be well-designed to avoid negative impact on short-term price signals and forward market liquidity.
  - **Finally, a comprehensive and holistic approach to those tools should be ensured** as part of the reform to maintain fair competition, enhance market liquidity and deliver the right long-term investment signals.

- **Unlock the development of flexibility assets and services as key enablers of a fit for net zero power system:** We welcome that the European Commission is not only investigating solutions to protect consumers against unexpected electricity bill increases, but also enable and incentivise them to actively contribute to the green transition through demand response, energy efficiency and decentralised generation. Member States should properly implement existing provisions in the Electricity Directive to allow market participants to provide a wider variety of flexibility offers in which more final customers may be able to participate. Long-term flexibility needs, essential to keeping the system in balance, should be identified in adequacy assessments, measures to create price signals (including self-consumption and Time of Use tariffs) should be set up, and the technical specificities should be addressed in the new Network Code on Demand Response.

- **Boosting investments for grid reinforcement and modernisation is a key prerequisite to the energy transition:** If we want to accelerate renewable uptake as well as flexibility assets and services roll-out, the EU regulatory framework should support the grid's expansion, flexibilisation and further digitalisation, including roll-out of smart meters to all consumers. Against that background, we call for a removal of obstacles at national level to invest in the necessary and efficient growth, digitalisation, and automation of the grids and boost investment through cost-reflective grid tariff.

The co-signatories stand ready to further debate these proposals in an open and constructive dialogue with Commission and co-legislators, to ensure a reform of the electricity market which enables consumers to benefit from the roll-out of renewable and other technologies needed to achieve carbon-neutrality, and provides confidence to investors in meeting decarbonisation goals.