



OPINION

European Economic and Social Committee

Energy Markets

**Communication from the Commission to the European Parliament, the Council, the
European Economic and Social Committee and the Committee of the Regions –
Short-Term Energy Market Interventions and Long-Term Improvement to the
Electricity Market Design – a course for action**
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1. **Conclusions and recommendations**

- 1.1 The European Economic and Social Committee (EESC) is very concerned about developments in the energy markets and therefore welcomes the fact that the Commission's Communication is considering short-term energy market interventions and long term improvements to the electricity market design. The EESC underlines therefore the conclusion of the Commission that "there are areas where adjustments to the EU electricity market design are necessary to take into account the future energy landscape and generation mix, new emerging technologies, geopolitical developments as well as the lessons learnt from the current crisis. Such adjustments should contribute to optimising the functioning of the electricity market design and make it better fit to drive a cost-effective decarbonisation of the electricity sector, deliver affordable prices for consumers and increase its ability to withstand price volatility".
- 1.2 Because well-functioning energy markets play a crucial role in pursuing all the basic objectives of a sustainable energy system, i.e. security of supply, reasonable costs and prices, and climate-neutrality, the EESC also believes it is important to facilitate and maintain the right conditions for the future. Any future measures should not undermine these prerequisites and should allow for climate efforts in the medium and long term.
- 1.3 At the same time, however, the EESC points out that the current energy price crisis is having a negative impact on European households and businesses. Extreme energy prices are fuelling inflation and contributing to economic uncertainty. The EESC therefore supports the Commission's approach of taking short-term measures to ensure affordable prices and reducing costs for European citizens and businesses, including direct financial support for vulnerable consumers, as well as for those SMEs and energy-intensive industries suffering the most. However, the EESC deems that the temporary interventions should be followed by an adjustment of the market design in the areas where adjustments to the EU electricity market design are necessary, as the Commission states.

Instead of relying on continuous compensation, the EESC calls for policymakers to encourage, support and enable people to become energy prosumers and build up local energy communities, thus helping them to be more independent of common market prices. The EESC calls on Member States and the European Commission to help vulnerable consumers via specific programmes to become prosumers.

- 1.4 In the EESC's view, the primary problem is the high price of natural gas and any measures at both European and national level should therefore aim to eliminate this root cause of rising electricity prices, facilitate increased production and use non-fossil energy to the extent that meets the energy demand. The Committee therefore welcomes the action on the demand side proposed by the European Commission on 14 September 2022 and calls for a joint effort by households, public sector and businesses. Reducing demand is the easiest way to cope with energy bills and to lower emissions. The EESC also calls for greater investment in a more rapid transition to a non-fossil and climate-neutral energy system.
- 1.5 The EESC points out that any follow-up action must be preceded by a rigorous debate and impact analysis. The EESC wishes to be part of this debate. The Commission and Member

States should avoid short-term proposals that would jeopardise the basic objectives of a sustainable energy system.

2. General comments

- 2.1 The Commission Communication on the Short-Term Energy Market Interventions and Long-Term Improvements to the Electricity Market Design builds on several recent documents addressing the rapid increase in energy prices and the concerns about the security of energy supply raised by the Russian invasion of Ukraine. It is also intrinsically related to the initiatives regarding the energy transition towards climate neutrality. The EESC stresses that the Communication needs to be considered in this overall context and refers to its previous opinions on these topics¹.
- 2.2 Well-functioning energy markets play a crucial role in pursuing all the basic objectives of a sustainable energy system, i.e. security of supply, affordable costs and prices and climate-neutrality. Considering that all these objectives are currently at stake, the EU should focus on measures that bring about benefits in terms of the entirety of the objectives and take into account the needs of the European economic and social model. The EESC therefore finds it important to get "back to basics" and focus on creating efficient conditions for -better integrated energy markets.
- 2.3 Energy markets are increasingly inter-connected through sectoral integration, which helps decarbonise the energy system in a cost-efficient way and tackle the increased volatility of the energy system. The current market design is to motivate actors to achieve decarbonisation, which is necessary to set Europe on the path towards climate neutrality. On the other hand, the current market design setting the electricity prices on the merit order basis suffers extremely these days from the enormously high gas prices.
- 2.4 The internal market is key for the EU to ensure the efficient allocation of resources, and this also applies to energy. At the same time, international markets also have a significant impact on the EU's energy system, especially through fuel markets. Geopolitical developments have highlighted the need for the EU to strive for improved strategic autonomy in energy and energy-related raw materials. Achieving the objective of reducing the EU's dependence on unreliable third countries requires closer cooperation and highlights the interdependence between Member States. While it is important for the EU to make maximum use of its own available resources and existing capacity, it is not realistic or useful to act in isolation from international markets; instead, valuable cooperation with reliable partners should be sought.
- 2.5 Well-functioning markets can only be achieved if the fundamentals are in order: The EESC stresses that proper energy infrastructure is a necessary basis for any energy system and contributes to the overall functioning of the energy markets, including energy availability and affordability. Removing obstacles to energy flow is thus a key measure for better-functioning markets. Appropriate market rules are another fundamental of market functioning, by setting the

¹ TEN/761, TEN/778, TEN/780.

rules of competition, among other things, thus increasing transparency and creating and strengthening a level playing field.

- 2.6 Investment in energy infrastructure is inevitable if the energy systems and market are to develop and respond efficiently to current trends, including electrification, localisation, digitalisation and an increase in the production and use of renewable energy. To facilitate these investments, policymakers and the competent authorities need to accelerate permit-giving and administrative procedures, while ensuring appropriate consultation with the relevant stakeholders. In addition to transmission and distribution connections, modern and future-proof infrastructure must also include electricity storage capacity, as well as the digital systems needed to make energy systems "smart". At the same time, lock-ins resulting in stranded assets must be avoided.
- 2.7 The EESC believes it makes sense to distinguish between short- and long-term measures when seeking solutions and improvements to the current situation. It needs to be recognised that many measures, especially major investments, take longer to become a reality. For some measures, more time is needed to enable their proper planning and to ensure their feasibility and compatibility with the basic energy objectives and to avoid short-term measures that may turn out to be counterproductive in the longer term.
- 2.8 The need for long-term thinking also applies to ensuring the security of energy supply and preparedness for exceptional situations and disruptions in the markets. This highlights the role of foresight activities in identifying risks and paving the way for improving resilience and tackling risks, including through contingency plans.
- 2.9 Moreover, the EESC believes that some form of capacity mechanisms have the potential to help ensure security of supply, especially in peak consumption situations, while avoiding undue market distortions, in line with the design principles of the regulation on the internal market for electricity.
- 2.10 While the EESC calls on policymakers to constantly and consistently adhere to all the basic objectives of a sustainable energy system, it also calls for focus on the root causes of problems. Without this kind of approach, there is a great risk of addressing acute symptoms with measures that are either inefficient or, in the worst-case scenario, work against the basic objectives. In this case, policymakers should firmly state the timeframe for this kind of emergency scenario.
- 2.11 The EESC emphasises that any measures, whether at Member State or EU level, should be based on sound science, solid evidence and thorough impact assessments. With regard to policies and measures, in-depth consultation should be carried out with the relevant stakeholders, including civil society.
- 2.12 All in all, the development of the post-crisis energy markets should increasingly rely on innovation and competition, rather than on subsidies and trade barriers. Moreover, it needs to be recognised that, in the case of the EU energy market, intervention anywhere could have consequences for the rest of the market. Therefore, measures in Member States must be properly targeted and temporary, with the least distorting effects on the EU market.

3. Specific comments

- 3.1 Any possible intervention in energy markets should be assessed against the basic objectives to ensure that they do not undermine the integrity of the Single Market and the level playing field or cause uncertainties that weaken the investment environment. Moreover, they must not jeopardise decarbonisation and energy-efficiency efforts.
- 3.2 This is a tough requirement, as any intervention in the energy market could have negative consequences. In many cases, these could be market distortions, fiscal costs, supply disruption, or a negative impact on investments or on consumer behaviour. The EESC therefore highlights that any intervention must be based on a careful analysis of their economic, social and environmental consequences.
- 3.3 The EESC believes that direct financial support to mitigate the impact of increased energy prices to those in need is no doubt the most realistic option as an emergency measure in a crisis situation. Possible support measures aimed at mitigating the crisis should, however, be temporary and targeted at those suffering most, be they citizens, SMEs or energy-intensive industries.
- 3.4 Instead of relying on continuous compensation, the EESC calls for policymakers to encourage, support and enable people to become energy prosumers and build up local energy communities, thus helping them to be more independent of common market prices. Increasing efforts should also be focused on guiding and supporting citizens and small businesses in their energy saving and energy efficiency activities, as well as in responding to variable production by means of flexible demand. As extensively analysed by the EESC, especially vulnerable consumers who suffer most from high energy prices have the worst chances, and in many cases no chances at all, of becoming prosumers. Both the European Commission and the Member States, at the national, regional and local levels, must initiative programmes to help those consumers overcome the various barriers they face (e.g. information and activation campaigns, financial resources, access to capital, access to ground and roof tops for installing solar and wind energy installations, etc.).
- 3.5 The EESC agreed in its previous opinion² with the conclusions of the recent ACER report³ in that, during the crises, the electricity market proved that it was working well, managing to avoid electricity cuts or even blackouts in certain areas. The ACER assessment also indicates that price volatility would have been much worse in any single country that acted in isolation. However, the Committee is well aware that gas prices are pushing energy prices up, given the current market design, where the merit order determines the price. The EESC points to the Union's shared values regarding services of general economic interest within the meaning of Article 14 of the Treaty on the Functioning of the European Union (TFEU), which are set out in Protocol No. 26 on services of general interest annexed to the Treaty on European Union (TEU)⁴.

² TEN/780.

³ The ACER's final assessment of the EU wholesale electricity market design.

⁴ TEN/761.

- 3.6 On a more general level, it must also be recognised that a great deal has been achieved in the integration of the EU energy markets in recent decades. It has brought about remarkable benefits in terms of the availability and affordability of energy, which are often taken for granted. Without the cooperation and integration of the markets, the costs of ensuring the security of energy supply and the greening of the energy system would be much higher.
- 3.7 This positive development of energy market integration should be continued. The interest in and benefits of connecting electricity markets across national borders are becoming ever more prominent with the increased reliance on renewables. The increase in intra-country and cross-border connections contributes to the security of supply but also equalises prices. In the short-term, it may be a drawback to those enjoying lower prices within the range of different prices, but in the longer term, it helps lower and stabilise prices.
- 3.8 According to the ACER's assessment, the current market design is worth keeping. But the EESC agrees with the Commission that there are areas where adjustments to the EU electricity market design are necessary to achieve the EU's decarbonisation objectives at a lower cost and ensuring security of supply, especially due to the increase in the production and use of renewable energy and ensuring the stability and affordability of prices.
- 3.9 The EESC suggests that it should be examined, for example, whether the existing market design, including its regulatory framework offers sufficient incentives to invest in flexibility options (such as storage, load shifting and green hydrogen). Without changing the bidding process, which would entail considerable risks, there are many opportunities that might incentivise system-friendly technologies, including a grid fee scheme that rewards load-accurate generation and consumption of electricity.
- 3.10 Moreover, the EESC also believes it necessary to start without delay the political discussion on how to ensure, in a future market design, investment in and refinancing of renewable energy capacity in the distant future when covering all the electricity demand by renewable energies would be the norm and the market price could regularly be zero or even negative.
- 3.11 In the debate on high electricity prices, it has been expressed very clearly that it is necessary to replace the current marginal pricing with a different kind of system, as gas is often in the marginal position, thus determining the price of electricity as a whole. In that context, the Committee refers to the statement of 8 September 2022 of EESC President and EESC TEN Section President that "[t]he EESC calls for joint European action to ensure the stability of electricity prices and to urgently reform the energy market, while also calling for faster completion of the single market and the enhancement of infrastructure".
- 3.12 The price hikes have basically been generated by unexpected external factors such as the war and hand in hand with merit order pushed the market electricity prices to their record levels. Considering that the root cause of the current high energy prices is gas, the ideal solution to the problem would be to minimise the use of gas and increase the production and use of non-fossil energy to the extent that meets the energy demand.

- 3.13 Fossil energy also affects electricity prices via emissions allowances, the price of which has increased significantly, although it still has a limited impact compared to gas prices. Moreover, a high share of the electricity price for consumers still consists of various taxes.
- 3.14 A distinction should be made between price shocks caused by exceptional situations such as the war and more regular price fluctuations. Fluctuations depend on many factors related to the supply and demand of energy. Due to the massive increase in the production of intermittent renewable electricity, price volatility in the electricity system is likely to increase. The market must therefore send adequate price signals to meet the need for flexibility.
- 3.15 The EESC emphasises that price caps or other interventions in the wholesale energy markets are often necessary in the current overstrained energy market but can affect the security of supply, the investment environment and energy savings. In doing so, the EESC is aware that market-based price signals are needed to encourage investment in energy production, price is also an incentive for energy saving and energy efficiency. However, temporary well-targeted compensation for those who suffer the most from energy prices, be it households or companies, is needed to soften the effect of the spike in energy prices.
- 3.16 The EESC welcomes the proposal to explore the review of the REMIT framework, in order to mitigate the risks of market abuse by means of improved market transparency and enhanced market data quality. To avoid a negative impact on businesses, households and society, the EESC also calls for measures to be explored to address the distortive effects on gas price-setting through possible market abuse and speculation.
- 3.17 The EESC draws attention to the fact that the National Climate and Energy Plans must be reviewed in the changed conditions in order to provide a coordinated response to cover long-term electricity needs.

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The president of the European Economic and Social Committee
