

## A quick response to the leaked Commission Non-paper on Emergency Electricity Market Interventions

First we would like to stress that Swedenergy supports the conclusions of ACER in their assessment of the EU wholesale market design of April 2022. We would like to highlight the conclusion that ill-designed emergency measures could endanger hard-earned benefits of electricity market integration.

During the circumstances, as electricity prices mirrors the underlying physical fundamentals, the most important measures are to

- reduce demand for electricity and natural gas,
- optimize system operation, and
- take any measures to increase, or at least not decrease electricity production.

Of course, measures should also be directed towards the final customers, especially those vulnerable. Financing this should however be up to the discretion of the Member States.

Generally, we find the use of different price caps as counterproductive both in the short and long run. We believe that there are producers that given the length of the time that prices have been high have prepared to increase their production volumes. However, for example condensed heat and power can increase volumes but future costs for running the machines more, and perhaps postponing maintenance is a large unknown. High prices and good profitability may be needed to induce increased production. Thus, a price cap could be hurtful in the short run as less quantities may be offered to the day-ahead market.

In addition, the Greek model (with a separation between fossil-fuelled plants and “others”) seem to punish fossil-free generation when we at last have reached a state when this generation would be built and run without any subsidies. The long run implications of the Greek model and other price caps would thus at least in the Swedish case be detrimental for the long run incentives to invest in climate friendly generation. T

Also, it is important to separate between the issues. Limiting the impact of the price of gas on the price of electricity or economically strained end customers are problems to address. The question of financing the necessary measures is a separate issue, which should be handled nationally and not on the EU-level.

### *Financial compensation to customers*

Financial compensation to customers is the least disruptive measure, not considering how this will be financed. The design of a compensation should be to keep an incentive for the customers to reduce their energy use. Either the compensation is independent of current energy use (lump sum) or it their will increase if they are active.

Thus, compensation for high costs end-user costs is preferred to regulated tariffs as the latter implies lower prices and thus lessen the incentives to reduce the use of electricity.

When it comes to the financing of these compensating measures we should allow for national solutions. Some proposals also seem to boarder to EU-taxation, which would not be a swift way forward since such decisions would require unanimity. For example, the Swedish transmission system operator has amassed a large sum of congestion rents. The

EU legislation specifies in some detail how that many could be used as for example re-payment to the customers. However, we propose that some leniency regarding the use of these congestion rents is advisable.

### ***Demand reduction is not only physical***

Within the reduction of demand should not only take into account more active end consumers, but also the strategy of the buyer in the market. Today there still is a fair share of price independent bids to the power exchanges, which have an immediate effect on the price formation.

### ***Optimize system operation***

It is important that the TSOs strive to achieve the highest possible nomination of transmission capacity to the DA-market, as this has great impact on the price formation. The agreement between Energinet and Tennet has proven that the use of counter trade has increased the transmission capacity available to the market...

### ***Increasing electricity production***

The increase of electricity production, or at least not-deterioration, of the supply of electricity is of utmost importance to keep energy prices at bay. Member States should focus on eliminating different barriers. From a Swedish perspective, a reduction of taxes on biofuels and waste could increase power production from condensed heat and power plants. In addition, early closure of hydroelectric plants should be postponed. Another measure with importance for prices in the whole of EU is the closing of the last three nuclear reactors in Germany by the end of the year.

Also, it should be investigated how to temporary allowing contracted reserves to be bid into the DA-market,

### ***Options for intervention***

When it comes to the options for intervention, the conditions differ between Member States, therefore measures must be adapted to national circumstances, hence interventions should be implemented as recommendations to Member States. Using an implementation by legislation under Article 122 TFEU introduces a greater degree of legal certainty to Member States, however, if not very thoroughly analysed, this might have future repercussions of a negative character.

Finally, as we see it, the measures under discussion are not duly analysed to reveal any long run consequences. Therefore, we urge to move with precautions, and to not disrupt the functioning of the market, rather addressing the context in which the market functions.

### ***Proposals in the Non-paper of Emergency Electricity Market Interventions***

#### ***Coordinated demand reduction measures for electricity***

As a reduction of demand is probably the fastest way to decrease electricity prices, we are positive to the idea of introducing tenders for demand reduction. Although this is a step away from equal competition, we can understand that some industrial customers are not aware of how their demand response could be of use to the electricity market. In Sweden this latter logic was used to even the path when setting the rules to get industrial customers into the Strategic reserve.

### *Price cap for inframarginal technologies*

The introduction of a price cap, i.e. a tax on part of the power production has several shortcomings.

- A price cap for inframarginal technologies will not lead to a lower price per definition. Also, the bidding will change when the condition changes and would probably lead to a pay-as-bid situation.
- The price deciding bid varies in time and bidding zones, and don't have to be a supply bid. That is, what may look like a supply bid may be an agreement to reduce the demand.
- A price cap reduces the incentive to increase production and could in fact lead to less production and not the least available flexibility
- The consequences for the intra-day- and balancing market respectively of a price cap in the day-ahead market is difficult to foresee. However, changes in these markets could have repercussions on system operation and security of supply.
- A tax on trade via DA-market will lead to less liquidity as it will lead to more bilateral trading
- The proposed cap will strike at the power production we want to be profitable, i.e. non-fossil power production.
- How should we assess the costs of hydro power?
- A price cap removes incentives for much-needed investments in the transition of the energy system.
- Unfair to countries with large shares of non-fossil power production
- As could be interpreted from the non-paper, it seems like fossil power production will not contribute to the financing which is ironic.
- How will already hedged volumes be treated, including physical forwards and PPAs? What will be the consequences for producers, suppliers and customers? It could result in a wave of bankruptcies.
- What are the consequences for Member States with national bidding zones?

### **EU-wide introduction of the Iberian measure**

The consequences will vary between Member States. From a Swedish perspective, this measure seems neither simple nor cheap, and the effects of electricity price is unclear. While we haven't had the time to fully analyse the effect on the Iberian market, it is our understanding that the reduction in electricity price has been less than was hoped for, electricity exports to France have increased and so also the use of natural gas.

- Must be introduced in the whole connected electricity market otherwise great risk of leakage, which will reduce the effect.
- It will probably lead to an increased consumption of gas so it will probably need to be accompanied with rationing.

- It takes huge amounts of capital to compensate for the subsidisation of big volumes of natural gas.
- The use of natural gas in Sweden is small, but will Sweden need to participate in an EU-wide financing?
- In the Iberian market, unit bidding is used, which is not the case in large parts of the EU where portfolio bidding is used and hence more complicated

### EU-wide introduction of Greek measure

The description of the model is incomplete and will need more detailed description on its design. Our immediate response is the huge risk that the costs of such an intervention could have, and we also can foresee some negative long-time effects on the development and operation of the power system.

As above, the preconditions vary between the Member States, e.g. in Sweden there are mainly only **two** fossil based production plants. Thus, in Sweden such a regulation would be obsolete almost directly.

We have identified four crucial implications of the scheme.

First, it erases dispatch signals for pool generators. With so many generators in the pool, including nuclear and fossil, combined heat and power, this large and diverse group of techs receives no dispatch signals.

All pooled generators are curtailed pro-rata in the case of a surplus of pool supply. With expanding renewables, this will be the norm rather than the exception.

This implies that solar will be curtailed as much as fossil cogeneration, even if there is no technical reason. It also means no more financial incentives for plants to schedule maintenance in the summer, for solar to increase morning/evening yield, for wind power to choose system-friendly designs with high full load hours, or for renewables-linked storage to operate according to system needs.

Muting these important incentives will not only make power systems more costly but also increase emissions and make system operation more challenging.

Second, the proposal essentially outlaws market-based renewables. The CFD is mandatory, so investments outside the scheme are no longer possible. In our view, this would be a huge mistake.

As an industry, we struggled for 30 years to make renewables economically competitive vis-à-vis fossil generation. Now we are finally there, and the next step is to outlaw market-based renewables?

Third, the scheme dilutes price signals for the demand side. Consumers pay a constant price for energy from the CFD pool, so the price seen is a mix between pool generators' levelised cost (LCOE) and marginal cost.

The price seen by demand would never fall much below the LCOE of pool plants, even in surplus wind/solar situations, and it would not rise to the true scarcity value in shortages. This makes effective demand response and flexibility provision impossible.

In our view, this is the opposite of what is needed in a future power system where demand will have to respond to variable supply.

Fourth, imposing CFDs on existing generators is likely to be challenging. It is quite unclear how strike prices should be determined for existing generators: a low strike price would undoubtedly trigger legal challenges by generators claiming expropriation of assets, and a high strike price would fail to relieve consumers.

Also, it is unclear how existing long-term contracts such as power purchasing agreements (PPAs) and forward contracts would be treated. If a wind farm had signed a ten-year PPA with a steel plant, would it still be allowed to serve this contract?

This matters because most generators are hedged for multiple years, and most market-based renewables projects have signed PPAs running even longer.

The proposal will likely have more problems, such as a self-production loophole. Generators could avoid the mandatory pool by building behind-the-meter power stations.

The proposal also essentially forces the same hedge on all consumers so that financial markets would dry up and energy-intensive firms would no longer be able to develop an appropriate hedging strategy.

In our view, the proposal would mean the effective end of electricity markets where price signals guide dispatch and investment.

The proposal would potentially work if it is limited to zero marginal cost renewable energy technologies, applies to new builds only, is voluntary, passes through hostile prices, and allocates the pool energy in an auction. But that's quite a difference when compared to this proposal.

## Presidency Brief ahead of the extraordinary TTE Council 9 September

As a consequence of the reasoning above, our replies to the Presidency's questions ahead of the TTE Council 9 September would be the following:

Questions:

*1. Do you agree that there is a need for EU-wide measures to be proposed by the Commission to be adopted in time for the upcoming heating season? If so, which of the outlined or alternative options should be pursued?*

When it comes to EU-wide measures we primarily think a union wide campaign stressing the need for energy savings and option B on increasing the liquidity on the market.

Option C on coordinated demand reduction measures for electricity would also be interesting, however stressing coordination as conditions vary among Member States.

A) Decoupling/limiting the impact of the price of gas on the price of electricity  
Even though there is no detailed proposal, we find it difficult to see how this should be accomplished. Maybe a second-best measure could be a coordinated procurement of natural gas

D) Limiting the revenues of inframarginal electricity producers

We find the proposal troublesome on many issues, mainly that this will punish preferred

power production which might reduce supply in the short run, and decrease incentives to invest in the long run.

#### E) Impact of the EU ETS system

Currently, the effect of EU-ETS on electricity prices are relatively marginal and any interferences in the market might bring more harm than good in the long run.

#### *2. What kind of specific instruments would you deem appropriate to achieve swift resolution of the above-mentioned problems?*

In our opinion the following measures should be considered

1. Safeguard that current electricity production isn't reduced and if possible, make necessary changes to increase the production.
  - a. Taxation of CHP in Sweden
  - b. Closing of nuclear reactors in Germany
2. Demand reduction
  - a. Energy savings campaign
  - b. Procurement of demand response
  - c. Urge market participants to decrease price independent bidding in the day-ahead market
3. Compensation to customers
  - a. Without reducing the incentives to decrease or move load
  - b. To be financed nationally