

Cabinet of Commissioner Kadri SIMSON - Minutes of VideoConference

VIDEOCONFERENCE CONCLUSIONS

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| Title | Meeting with Vattenfall on the upcoming electricity market design reform |
| Date | 16-02-2023 |
| Participants | Ext : Sjur Jensen, Vice President, Head of Business Unit Assets, [REDACTED] [REDACTED] [REDACTED] COM: Thor-Sten Vertmann, [REDACTED] [REDACTED] |
| | Ares initial request : |
| | Disclosure authorization : <input checked="" type="checkbox"/> YES - <input type="checkbox"/> NO - <input type="checkbox"/> Partial (pls highlight unauthorized parts) |
| Issues raised & follow-up | <p>Vattenfall presented the company's profile and mentioned the SE government interest in investments in large scale nuclear and that different SMR designs are considered.</p> <p>Regarding the EMD reform, Vattenfall considers that the markets work well, but their functioning was affected by a temporary shock. They explained that due to the regulatory uncertainty some investment decisions on the markets were put on hold. Vattenfall stressed that the decarbonization should not be delayed.</p> <p>As regards possible improvements to the EMD, Vattenfall said that while the mechanisms such as CfDs, PPAs and forward markets are very useful they should remain voluntary.</p> <p>Vattenfall considers that forward markets are an important tool to stabilize companies' finances. Also, hedging is an important instrument but there are some concerns due to not being able to use bank guarantees as collaterals. This results in liquidity issues on the market. For Vattenfall, physical hubs are decisive and therefore more investments into the grid are indispensable. With regards to the Nordic virtual hubs, extremely high prices can be solved by more interconnection and more fossil free generation. Vattenfall also considers that no fixed price contracts should be allowed unless suppliers are sufficiently hedged.</p> <p>Concerning the forward markets, COM noted that the 1-year ahead market is most liquid while at the moment contracts until 3-year ahead and beyond are limited or essentially do not exist. Therefore, these markets should be developed in order to be better prepared for future shocks. The question is how far we should push to ensure more availability of forward markets considering the extra costs of covering risk premiums.</p> <p>Vattenfall noted that there are cash liquidity constraints and derivatives accounting issues. It is important that the proposed changes do not discourage hedging activities. Collateral requirements should be looked into as well as credit and liquidity risk management. Today banks cannot pick up this business because they are not allowed to evaluate the credit risk, hence they just pass the collaterals. Vattenfall acknowledges that PPAs can reduce the risk but these are usually agreements with bigger companies. This instrument should not be overused, as otherwise it will affect forward markets by further reducing their liquidity.</p> <p>COM noted that the three instruments (CfDs, PPAs and forward markets) should complement one another.</p> <p>Vattenfall stated that the PPA standardization should be up to the market and that there are some standards driven by market participants. As regards credit guarantees, Member States could play a role to reduce the risk but the guarantees should be offered on market terms. Also, the duration of PPA should be limited.</p> <p>COM stated that in case of CfDs the state plays a role in encouraging investments to make the projects bankable. Vattenfall emphasized that if CfDs are mandatory they would outcompete PPAs and forward markets. Therefore, they should be voluntary and it should be up to the market participants which instrument they choose. They also noted that it is important to avoid a race to the bottom in auctions because otherwise consumers will have to pay the bill in case the projects will fail. Vattenfall also stressed the importance of the design of support mechanisms. COM agreed that design principles are important. For example, the support schemes should preserve the exposure to price signals.</p> <p>Vattenfall considers that CfDs do not work for flexible assets while there is a lot of value to invest in flexibility. The inframarginal revenue cap was an acceptable temporary mechanism but</p> |

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| | it should not be prolonged as it undermines investments long-term, while retail markets can and have effectively provided relief. |
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