[redacted]

From: [redacted]@fortyeight.brussels>
Sent: mercredi 30 novembre 2022 16:20
To: SIKOW-MAGNY Catharina (ENER); [redacted]; SLINGENBERG Yvon (CLIMA); [redacted]; [redacted]; [redacted]olk; [redacted] (COMP); [redacted] (HLD REI); [redacted]
Cc: [redacted]; [redacted]; [redacted]; [redacted]; [redacted]; [redacted]; [redacted] (REN RE); [redacted]; [redacted] (ENER); [redacted]
Subject: Re: The Stanhope Group - Agenda of Lunch, December 1st
Attachments: Briefing_December_1_Stanhope_Group.pdf

Dear all,

attached is a slightly changed version of the agenda for our tomorrow meeting. please don't forget the venue is L'Ecailler du Palaya Royal, Rue Bodenbroek 18, 1000

kind regards

[redacted]

On Fri, 25 Nov 2022 at 11:39, [redacted]@fortyeight.brussels> wrote:

> Dear all,
>
> please find attached the agenda [redacted] and I are proposing for our next lunch.
>
> Kind regards
>
> [redacted]
>
> --
> [redacted]
> FortyEight Brussels
> 15 Rue D'Egmont
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--
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The Stanhope Group
High-level Reflection Group on

The agenda for the long-term reform of the EU electricity market
Long-Term markets

Background Note for the Lunch Discussion on

December 1st, 2022, 12:30-14:30H
Ecailler du Palais Royal, Rue Bodenbroek 18, 1000 Brussels

European Commission:

- **Catarina Sikow Magny**, Director, DG ENER
- [redacted] DG COMP
- **Yvon Slingenberg**, Director, DG CLIMA

Industry:

- [redacted], Tennet
- EDF Europe
- ENEL Europe & ME
- Elia Group
- VNG AG
- Ørsted

A Market for the Long-Term

It is generally understood that the focus on long-term contracts will require a mandatory target on minimum share of long-term contracts, which might grow over time. Given the heterogeneity of Member States, and the lack of time for the interinstitutional negotiations, the legislative proposal should be pragmatic and flexible, especially as far as the definition of Long-Term products and the design of the Long-Term market.

Questions:

1. How should that target be formulated? For example as a share of the total electricity generation or the total amount of exchanged electricity, or are there other options?
2. What kind of flexibility at Member States level, so to accommodate varying ambitions and local market specificities will be helpful and/or necessary?
   a) Should the target be expressed as "at least …"?
   b) How prescriptive should the definition of long-term" be?
   c) Should the EU prescribe what "baskets" of long-term solutions, PPAs, CFDs, hedging, Member States should or want to concentrate on?
   d) How prescriptive the legal text should be as per the design of a centralised/decentralised scheme?

A major question is also where the obligation should be put.

1. If it is on the retailers, it most likely leads to a decentralised system, which would also a) favours big, structure operators, b) create potentially competition among retailers, and could lead to a variety of auctions mechanisms, which might be conflict
2. If the onus is put on a central buyer, the outcome is a centralised solution:

   a. Will the central buyer act, at least temporary, as a planner aggregating demand, matching it with supply and tuning the auction,
   b. Leading to a situation, which might not be acceptable to a number of Member States

3. A hybrid solution could be:
   a. A central buyer acts as a complement, raising a lot of detailed questions on the relationship of the central buyer and more decentralised auctions etc.
   b. A central buyer could be a temporary solution before de-centralising the whole system

1.1. Auctions and instruments

Long-term solutions will be based on competitive bidding, most likely, technology-specific auctions.
It is expected that the generalised recourse to auctions, coupled with a long-term contracts mandatory target will lead to price converge towards the specific technology's LCOE.
This is clearly a scenario where the Competition is for the market rather than in the market.
The design and use of the various instruments that will be deployed also raise a number of issues.

CFDs

a. How to incorporate the changes into the LCOEs into the underlying price dynamic of the contract?
b. How to adapt remuneration to the effective value of electricity?

PPAs

a. Is there an effective competition between CFDs and PPAs. Can they co-exist, and under which conditions?
b. Can PPAs be left to the negotiating ingenuities of the concerned parties or should, in order to benefit from some forms of centralises de-risking tool, be standardised?
c. Can a system with growing and persistent volumes of PPAs can effectively work without some form of centralised clearing house

Consequences

1. Progressive de-coupling of electricity from gas prices
2. Structural change in the DNA of the electricity market, away from the notion of scarcity and scarcity prices
3. Progressive marginalisation of day-ahead markets. Need to transform them into ways for fossil-based generation to retrieve marginal costs
4. Re-definition of place and role of CRMs, no longer as bugs but as features of electricity markets, where fossil-based generation can retrieve fixed costs

Final questions

The above begs more fundamental questions, such as

1. What do we do with the existing assets? Is the Inframarginal Revenues Cap the answer?
   a. If yes, how to amend it, since the current version is simply inapplicable and/or grants an unsustainable flexibility to the Member States
   b. If not, then what?
2. Where's the competition in all this?
3. Which State Aid policies changes would need to be introduced? Are they advisable and, above all, attainable?
4. Who's in charge of planning? Especially networks?
5. What's of flexibility in a system increasingly insulated from price variation? What could be a sustainable business-model to remunerate it?