[redacted]

From: [redacted]@elia.be>
Sent: vendredi 9 décembre 2022 07:37
To: SLINGENBERG Yvon (CLIMA)
Cc: [redacted]; [redacted]
Subject: Recap of Elia's input during the Stanhope Group lunch
Attachments: Electricity market reform_PPT.pptx

Follow Up Flag: Follow up
Due By: jeudi 15 décembre 2022 12:00
Flag Status: Flagged

Dear Yvon,

I hope you are doing well.
We've met last week at the Stanhope Group lunch in Brussel.

I allow myself to drop you this email with a quick summary of the different ideas that I've referred to during our very interesting exchanges => cf attached PPT

On all the points listed in attached PPT, we have much more elaborated studies, presentations or reports that we would be happy to share.

Would there be any interest from your side to have a bilateral exchange which would allow us to explore these ideas further with you or your team?

Do not hesitate to contact me.

Best regards

[redacted]

Met vriendel jke groet * Cordialement * Kind regards * Mit freundlichen Grüßen

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Electricity Market Reform

4 complementary measures

What do we have today?

The Energy only Market (EoM) based on marginal pricing has delivered important benefits to European consumers, and has proven to be relatively good to allocate resources efficiently

However…

- The **EoM fails to provide incentives to invest** in capital-intensive technologies, both to achieve decarbonisation and ensure security of supply.
- **Distortive subsidies for renewables** are used as the main approach to achieve increasingly ambitious decarbonisation objectives.
- Adequacy concerns are fixed with **Capacity Remuneration Mechanisms (CRMs), viewed as an exception** rather than an acceptable piece of the puzzle.
- **Emergency measures** are being put in place to cap excessive revenues…
  - but it is unclear how effective they will be, and
  - how well they will be redistributed to the consumers that are most in need.

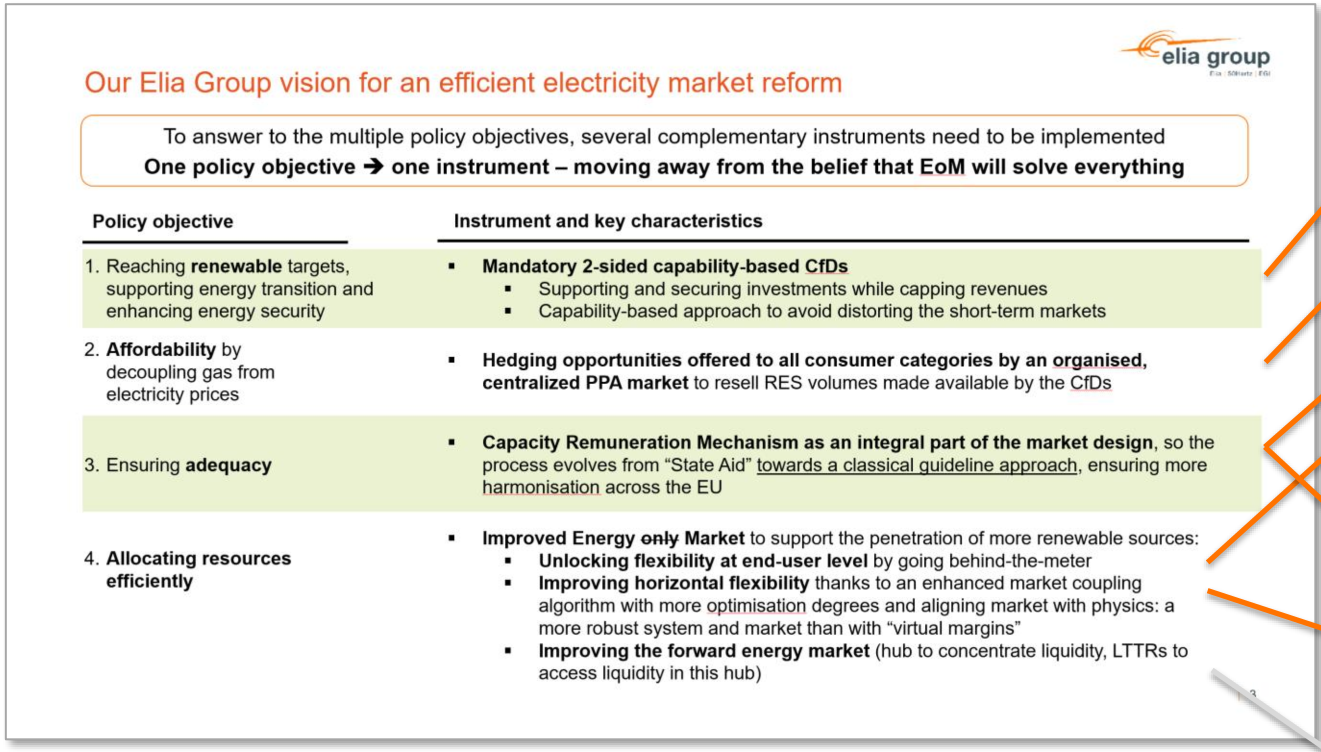
Key building blocks for an efficient electricity market reform

To answer to the multiple policy objectives, several complementary instruments need to be implemented
One policy objective ➔ one instrument – moving away from the belief that EoM will solve everything

Policy objective	Instrument and key characteristics
1. Reaching **renewable** targets, supporting energy transition and enhancing energy security	▪ **2-sided capability-based CfDs** ▪ Supporting and securing investments while capping revenues ▪ Capability-based approach to avoid distorting the short-term markets
2. **Affordability** by decoupling gas from electricity prices	▪ **Hedging opportunities offered to all consumer categories by an organised, centralized PPA market** to resell RES volumes made available by the CfDs
3. Ensuring **adequacy**	▪ **Capacity Remuneration Mechanism (with <u>reliability option</u> to automatically capture excess revenues) as an integral part of the market design**, so the process evolves from "State Aid" <u>towards a classical guideline approach</u>, ensuring more harmonisation across the EU,
4. **Allocating resources efficiently**	▪ **Improved Energy ~~only~~ Market** to support the penetration of more renewable sources: ▪ **Unlocking flexibility at end-user level** by going behind-the-meter ▪ **Improving horizontal flexibility** thanks to an enhanced market coupling algorithm with more optimisation degrees and aligning market with physics: a more robust system and market than with "virtual margins" ▪ **Improving the forward energy market** (hub to concentrate liquidity, LTTRs to access liquidity in this hub)

What should be part of the targeted market reforms?

A proper structural reform will take many years to be implemented. We need to move away from the emergency measures. What can be decided and implemented on the short term?



Our Elia Group vision for an efficient electricity market reform

To answer to the multiple policy objectives, several complementary instruments need to be implemented
One policy objective → one instrument – moving away from the belief that EoM will solve everything

Policy objective	Instrument and key characteristics
1. Reaching **renewable** targets, supporting energy transition and enhancing energy security	▪ **Mandatory 2-sided capability-based CfDs** ▪ Supporting and securing investments while capping revenues ▪ Capability-based approach to avoid distorting the short-term markets
2. **Affordability** by decoupling gas from electricity prices	▪ **Hedging opportunities offered to all consumer categories by an organised, centralized PPA market** to resell RES volumes made available by the CfDs
3. Ensuring **adequacy**	▪ **Capacity Remuneration Mechanism as an integral part of the market design**, so the process evolves from "State Aid" towards a classical guideline approach, ensuring more harmonisation across the EU
4. **Allocating resources efficiently**	▪ **Improved Energy ~~only~~ Market** to support the penetration of more renewable sources: ▪ **Unlocking flexibility at end-user level** by going behind-the-meter ▪ **Improving horizontal flexibility** thanks to an enhanced market coupling algorithm with more optimisation degrees and aligning market with physics: a more robust system and market than with "virtual margins" ▪ **Improving the forward energy market** (hub to concentrate liquidity, LTTRs to access liquidity in this hub)

Suggested scope for targeted reform

- CfDs for new assets, incentivised for existing assets
- Implementation of a centralised PPA market
- CfD volume made available as PPA
- Relaxing criteria for justifying CRMs
- Make mandatory to offer the possibility to valorise flexibility behind-the-meter

And **preparatory work**, as stepping stone to speed up the subsequent structural reform:

- Initiate work on a CRM harmonisation
- Allow regulatory sand-boxes to test alternative models to virtual margins

Evaluation and discussions already ongoing

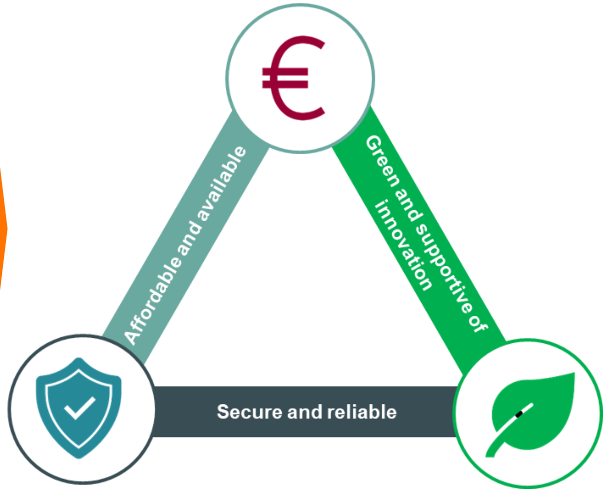
What would this deliver?

- ✓ **Different instruments** (that are understandable/steerable) allowing supporting **different policy objectives**: **renewables, adequacy, affordability**.

- ✓ **An efficient energy market**, without distortion, allocating flexible resources efficiently across the EU, and **enabling competition wherever possible – for the market and in the market**.

- ✓ **Vast flexibility from demand-side**, enabling more RES integration without excessive investment in back-up generation.

- ✓ **No need for additional interventions** in the market.



Answering energy trilemma