[redacted]

From: [redacted]@ceps.eu>
Sent: mardi 24 janvier 2023 09:31
To: SLINGENBERG Yvon (CLIMA)
Subject: Stanhope Group - preliminary agenda for comment
Attachments: Briefing_February_10_Stanhope_Group.docx

Yvon,
Attached, please find the preliminary Stanhope Group agenda. Let me know if you have any comments or want to have something added.
[redacted]

The Stanhope Group
High-level Reflection Group on

A practical approach to reforming the EU electricity market

Background Note for the Lunch Discussion on

February 10th, 2023, 12:30H-14:30H
The Stanhope hotel, Tearoom, 9, rue du commerce, 1000 Brussels

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

Industry:
- [redacted] Tennet
- [redacted] EDF Europe
- [redacted] ENEL Europe & ME
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- [redacted] Ørsted

Reforming the EU electricity markets – 2023-2024

Rather than discussing the best theoretical models for hypothetical market designs, we would focus first on what can/must be realistically achieved in the current parliamentary term. The Commission received an explicit mandate to table a legislative proposal to reform the EU electricity market in early 2023. The unofficial, but eloquent, aim of the reform is to decouple electricity from gas prices and ensure a structural reduction of both price level and price volatility. Considered 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.

We believe the following are among the most relevant issues that need to be pre-emptively resolved before drafting a legislative proposal.

1. **Decoupling/stabilising electricity prices**
   a. What are the essential conditions to ensure a decoupling of power prices and their stabilisation around competitive levels? Can this really work
   b. Which risks for physical flow of electricity and hence for network development and operation

2. **Two-ways CfDs**
   a. Which common rules/characteristics of the CfDs must or can be commonly defined in an EU Legislative Act. Or the entire matter is better served by the evolution of the State Aid jurisprudence

b. Are CfDs reserved to Renewable generation or must be extended to the whole palette of infra-marginal technologies
c. Must the legislative initiative incorporate a mandatory target for CfDs? Which one?
d. If yes, what is the role and conditions for merchant-based deliberated investments

3. **PPAs**
   a. Must be PPAs be kept at a strictly voluntary-basis, without industrial demand coordination?
   b. Are de-risking tools conceivable for purely voluntary contracts?
   c. Does de-risking automatically entail/suggest PPAs standardisation?

4. **Existing assets**
   a. Is it advisable to restrict the scope of the legislative initiative only to new assets?
   b. If not is, as inquired by the Swedish Presidency non-paper, the inframarginal revenue cap a workable structural solution, maybe in a refined version that strongly reduces the current freedom of the member states to essentially do as they please in the matter?

Reforming the EU electricity markets – post 2025

If time allows it, we propose, in the second part of the lunch, to debate the issues at stake for EU electricity markets in the next legislature. The following are some of the possible issues to discuss.

1. Day-ahead
   a. Do day-ahead markets need to be restructured if a growing proportion of generation will be decoupled from marginal pricing, provided that they will keep on overseeing dispatching?
   b. Are gas-generators able to recuperate variable costs?
2. CRMs
   a. Do CRMs legislation need a reshaping to reflect the shift in the role of CRMs
3. Existing assets
4. Hedging
   a. Role and volumes of hedging markets, for variable costs only?
5. Cost of capital and state aid
   a. In a generation scene increasingly dominated by capex-intensive technologies and in a macroeconomic scene with persistent differences among member states in the cost of capital, what is the effect of monetary policy on investments and the role of state aid?