The Stanhope Group
High-level Reflection Group on
"Main Energy Challenges of the European Green Deal"

Background Note for the Lunch Discussion on

Energy prices and electricity markets

June 8th, 2022

12:00-14:00H
Stanhope Hotel, 9 rue du Commerce, 1000 Brussels

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

Industry:
- [redacted] EDF Europe
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- [redacted] Elia Group
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The seriousness of the European energy crisis can be hardly underestimated. If one has to trust forward EU electricity and gas prices, the current price levels are here to stay. The longer this situation will last, the worse the impact on both economy and inflation. While many end consumers were so far hedged through 1-year contracts, these contracts are now expiring and being renewed at current forward prices. Thus, we are approaching a scenario where almost all end consumers are hit by the high energy prices.

The European Commission Communication on short-term energy market interventions and long-term market design took a very prudent stance vis-à-vis structural short- or long-term market interventions suitable to modify the design of current EU electricity markets. The Commission's current preference towards fiscal, national measures over price caps or other more structural interventions is clearly perceivable.

30-31st May European Council conclusions are not much more explicit in either endorsing or rejecting the direction of intervention proposed by the EC. It seems, otherwise, that on both price caps and the contagion effect between gas prices and electricity prices (aka marginal system pricing) the Head of States have actually passed the parcel back in the Commission' hands. And the parcel is ticking.

Short term
1. Are EUCO conclusions meaningful enough to give guidance to the European Commission and/or member states? What is the impact on member states 'toying' with price caps?
2. After the Iberia exemption, will there be a Greece and/or Italian one? Can the IEM survive?
3. What is the link between the price caps and the fiscal measures on inframarginal rents?

4. Windfall profits is a slimy notion; both the EUCO and the EC Communication seems pretty well aware of that. Should windfall profits for selling gas for heating and industrial use also be targeted?
5. Are there not other pragmatic solutions to address the politically contentious issues?

Medium-term

6. "All-electric" option
    - Is the EC proposed amendment to RES-E permitting rules a "game changer"? if not, what else could be done at EU level
    - How much non-fossil related energy can the EU credibly generate in 2022 and in 2030? Should we seriously start preparing from renewable electricity import from neighbouring Countries?
7. Renewable Fuels of Biological Origin?
    - In the current scenario, does using electricity to generate renewable hydrogen make any more sense? Or should we rather use biomethane?
8. On the May 18th Market Design Communication, the EC signalled that Capacity Mechanisms might be a feature of modern electricity markets rather than a bug. This is, potentially, a significant departure from the current way the EC assessed CRMs so far. From both energy as well as competition policies. Is this relevant? Is there a market design able to minimise both flexibility and SOS needs of the system?

Long Term

9. What is the main incompleteness of current market design? What are the main issues that need to be addressed?
10. From optimisation of assets and infrastructure management to investments: is this change of sense that market design is required to undertake?
11. Is System Marginal pricing really the core of any market design intervention? In this sense, what is the main objective new market design shall deliver? Investments or price control?