

Implementing the new Electricity Market Design (EMD)

EEM25 Conference

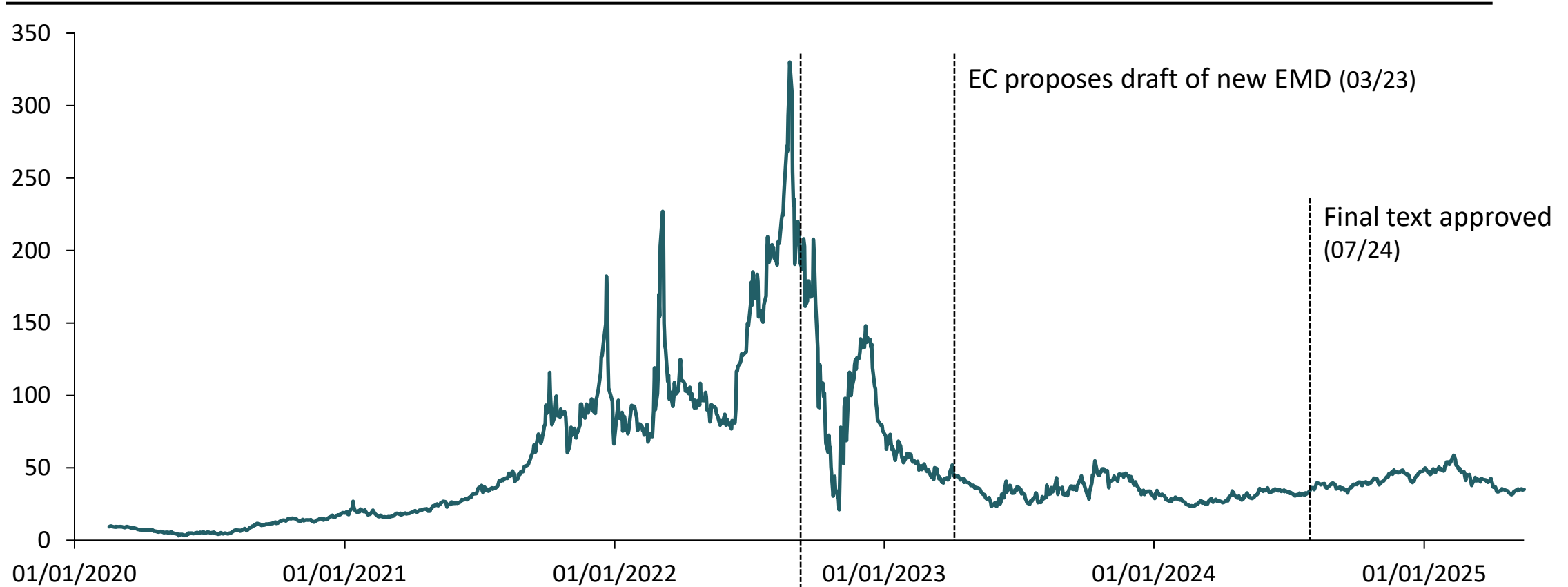
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What is the background for the new EMD?

TTF daily price, €/MWhg










Debate by industry about the
need for a new EMD

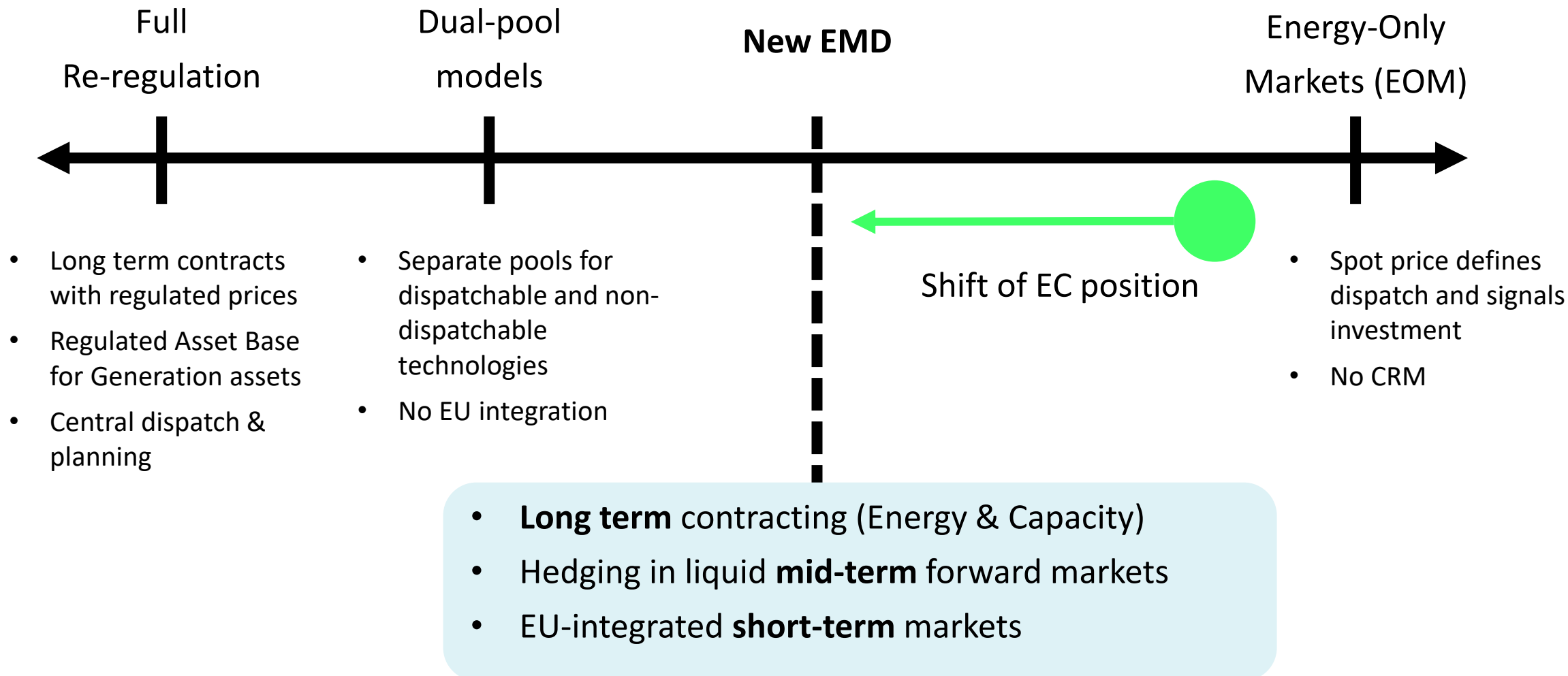
“The **skyrocketing electricity prices** are now exposing, for different reasons, the **limitations of our current electricity market design**. **We need a new market model for electricity** that really functions and brings us back into balance.”

- Ursula von der Leyen (08/22)

Key elements of the new EMD

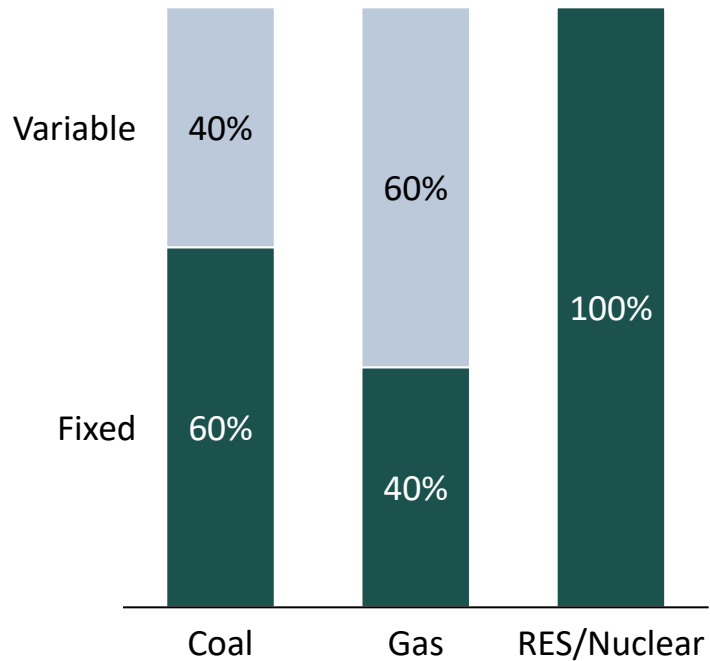
Topic	Directive?	Regulation?	Description
CfDs			Two-way CfDs are now the sole model to be used for direct support of new RES and nuclear plants
PPAs			<ul style="list-style-type: none"> MS to remove all barriers to the development of the PPA market and to design incentives, including state backed guarantees The EC will further evaluate the need for an EU PPA platform and/or standardized PPA contracts
Capacity Remuneration			Capacity mechanisms are considered a permanent feature of the EMD (eliminating their last resort nature)
Flexibility			MS should periodically assess their needs for flexibility and define national objectives
Consumer protection			<ul style="list-style-type: none"> Triggers defined to declare electricity price crisis Rules on caps for inframarginal (temporary, costs recognized) Obligations on suppliers and their solvency
Market transparency liquidity & harmoniz.			<ul style="list-style-type: none"> Measures to increase FWD market liquidity Review of REMIT, ACER supervision powers

The new EMD marks a decisive shift from the EC away from some extreme proposals aired



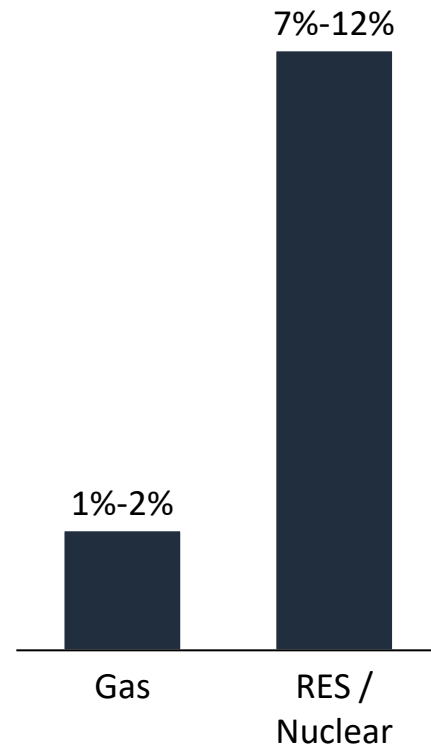
The Energy-only market doesn't make sense as the power sector moves to “CAPEX-only” CO₂-free technologies

Share of LCOE as fixed/var



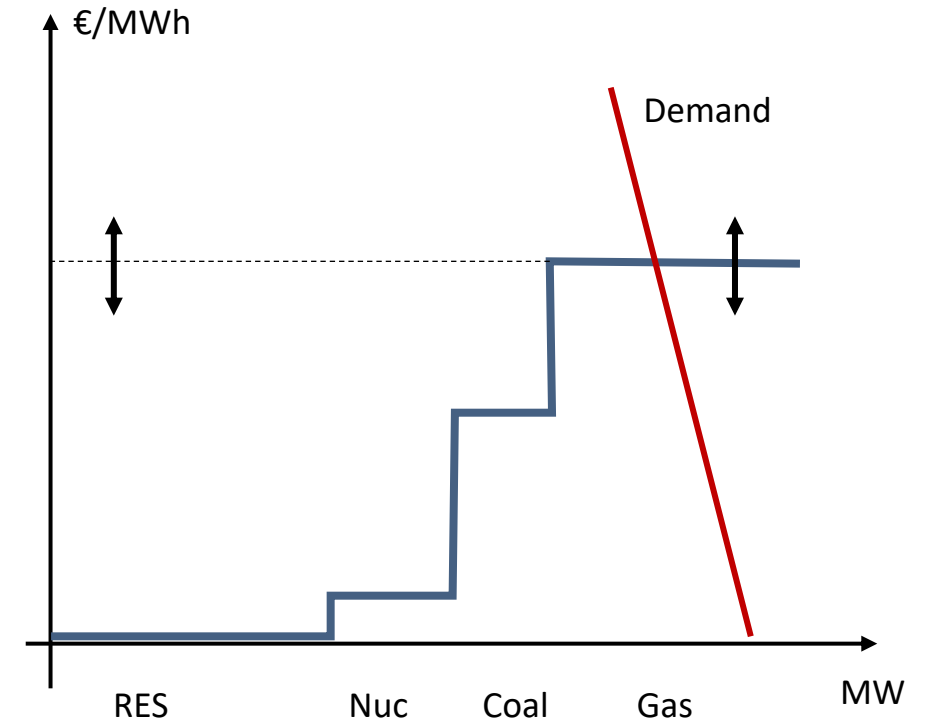
CO₂-free technologies consist mainly of fixed investment costs (CAPEX).

% increase of LCOE for
+1 0% CoC increase



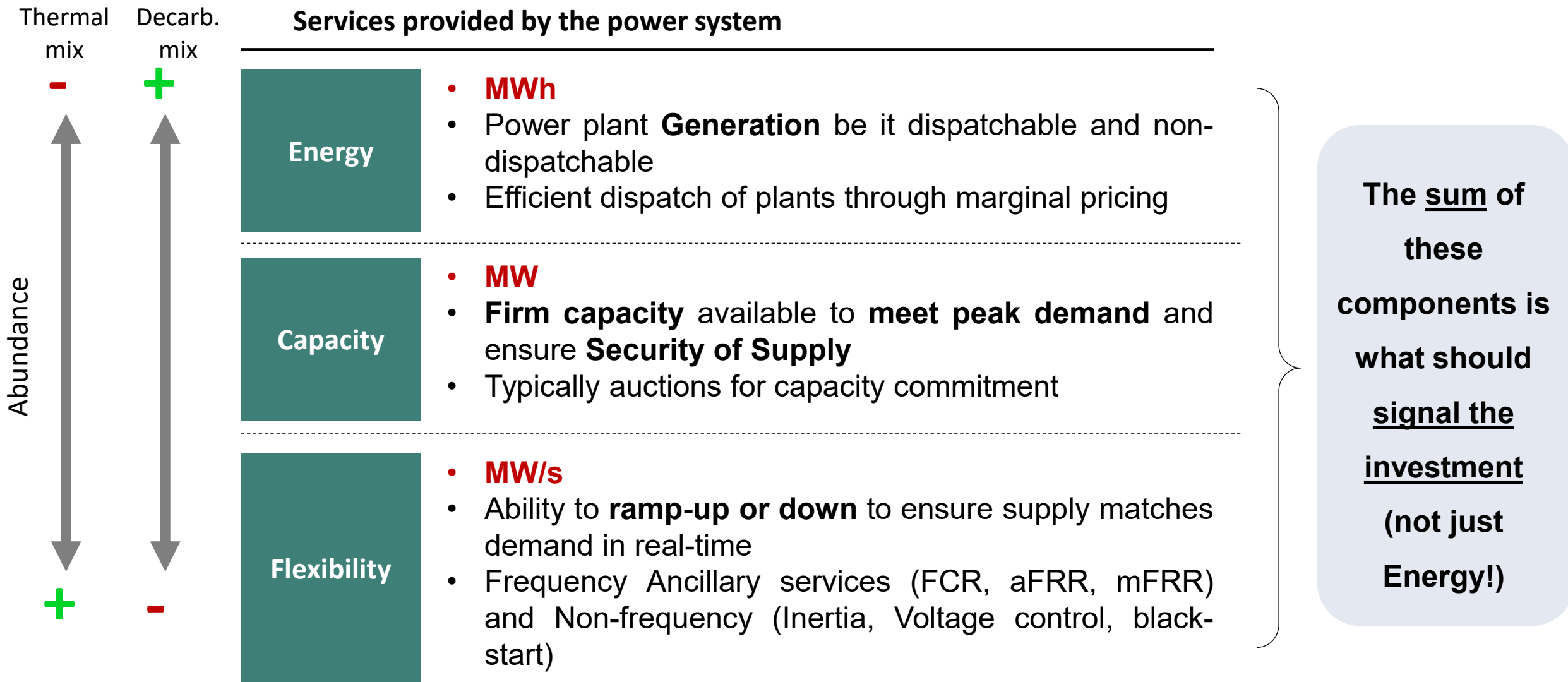
Therefore, the Cost of Capital is the main source of competitiveness.

Hourly bid curve and marginal pricing



Exposing them to the marginal price only imposes risk that the technology cannot manage (*price-takers*) – thereby increasing the cost of capital, making decarbonization more expensive

An EMD fit-for-decarbonization must adequately remunerate all services provided by the power system



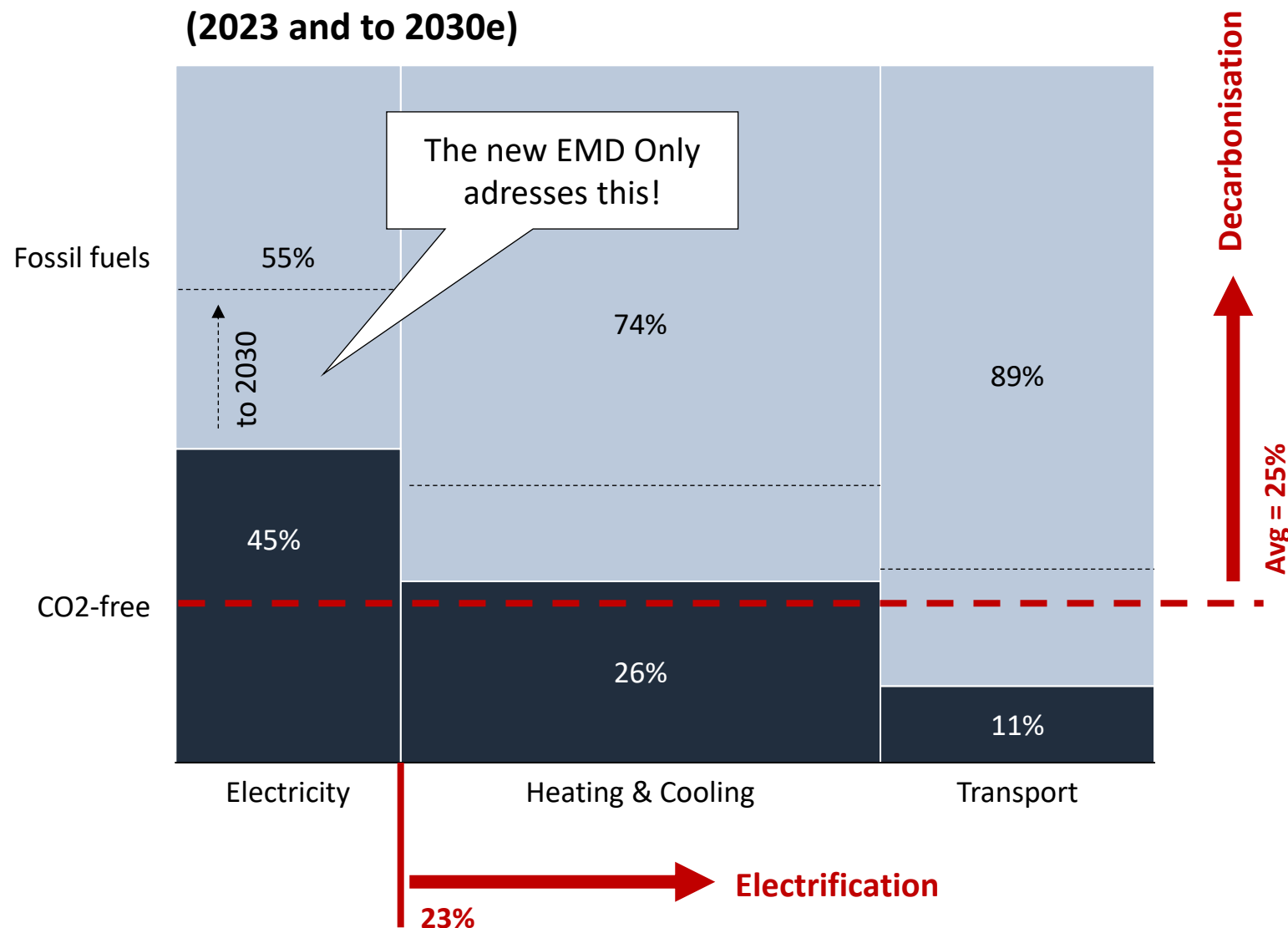
The new EMD agreed at EU-level correctly addresses these issues

The new EMD does not follow any extreme or disruptive model, instead it correctly:

- **Deepens the functioning of short-term markets** (e.g., evolution to quarter-hourly gate closure to reduce imbalances; harmonize cross-border balancing markets, ...) which is **essential to ensure an efficient EU-wide plant dispatch**
- **Recognizes that Capacity Mechanisms are an integral component of the market design** even though they still need to be implemented and harmonized
- **Promotes long-term contracting** by incentivizing contract standardization, allowing state-backed guarantees and by harmonizing design of state Support mechanisms as least distortive

Is a sound EMD the end game?

EU Final Energy by sector and emission type
(2023 and to 2030e)



- **Decarbonisation of the energy consumption is the end game – not just electricity!**
- Electrification is key to achieve this goal and requires significant energy & fiscal policy beyond the new EMD:
 - **Fixed vs variable split** of electricity end-user prices
 - **Spreading green premium** from electricity to fossil fuels for burden-sharing
 - **Carbon Border Adjustment Mechanism** deepening
 - etc

Thank you!

