



The “wholesale electricity market design 2.0”?

Statement by E.DSO

On 29 April 2022, the EU’s Agency for the Cooperation of Energy Regulators (ACER) issued its long-awaited final assessment of the EU wholesale electricity market design. It comes at a crucial moment of volatile electricity prices and unprecedented supply insecurity linked to Russia's invasion of Ukraine. The core outcome of the assessment is that EU’s wholesale electricity market structure ensures efficiency and security of energy supply and thus “worth keeping”.

According to ACER the root cause of the problem is not the market design but the price of gas. The assessment informs that the EU has greatly benefited from the electricity market integration (**€34 billion a year in the last decade**) which – in ACER viewpoint- is “key” to the EU’s planned decarbonisation plan since it encourages investment in renewable energy.

ACER however admits that the current market has not been designed for emergency situations, like the one Europe is currently experiencing. ACER advocates against any interventionist approach by Member States, claiming that it will “hamper private sector investment, influence perceptions of political risk and/or inadvertently exacerbate supply shortages”- referring to the temporary measure introduced by Spain and Portugal.

To improve the market’s predictability and stability, ACER lists **13 future-proof measures** ranging from speeding up electricity market integration and incentivising investment in renewables to protect consumers from skyrocketing electricity prices. The assessment also highlights the need to improve permitting, speed up the roll-out of electricity grids and increase flexibility options, notably seasonal flexibility.

E.DSO, the European Association representing the leading Distribution System Operators (DSOs), strongly believe that to keep electricity affordable and ensure the integration of renewables will only be possible if Europe has the right energy market design. This means there shall be gradual improvements to the market rules for setting wholesale energy prices. Certainly, affordability is a crucial element to be considered since high electricity prices are hurting customers and will impact their ability to afford the necessary grid tariffs. High prices will also reduce demand and thus run contrary to the objective of an accelerated electrification. We also consider that measures must not tamper with the resilience of electricity supply.

E.DSO overall welcomes ACER assessment and calls on the European Commission to ensure that such input is taken into due account in future decisions. We mirror the Agency’s concerns that short-term, uncoordinated emergency measures must not undermine the EU's long-term objective of climate neutrality by 2050.

One should however keep in mind that European energy prices hit record highs this year after the invasion of Ukraine by Russia, Europe's main gas supplier. That followed months of already high gas prices, caused



by surging demand in economies recovering from the COVID-19 pandemic and growing concerns about Russian supply.

If we want to get serious about ending Europe's dependence on imported (Russian) gas, oil, and coal it is imperative to ensure energy security, stability of supply and price affordability in the long term. Focus and incentives should also be on the functionality of the system and the added social economic value, where DSOs can provide innovative and digital solutions, in combination with the “most valuable network investments”, also allowing a forward-looking assessment of the intrinsic societal and techno-industrial value of the investments implemented. There are already examples in this respect that we call for extensive consideration.

By shifting focus, we are confident that investments in electricity networks would foster integration of renewables as well as ensure security of supply (as stated in the assessment “a sizeable share of this renewable generation will be connected to distribution grids”).

The challenge ahead of us is daunting. Renewables needed to double to hit the European Commission's ambitions as included in the new REPowerEU plan. The dramatic increase in gas and power prices necessitates a fundamental re-thinking of energy market design, so that it can offer the right flexibility to accommodate emergency situations.