

Policy Note: EEX and EPEX SPOT welcome ACER's Final Assessment of the EU Wholesale Electricity Market Design of April 2022

EEX and EPEX SPOT welcome the results of ACER's assessment:

- **Market is not to blame for the current crisis** and current design is worth keeping
- **Day-Ahead market integration delivers cheaper electricity** and facilitates growth of renewables
- **Market Coupling limits price volatility** and enables efficient use of interconnectors
- **EU electricity market integration enhances security of supply** and resilience regarding short-term price shocks. Cross-border trade and integrated electricity markets bring an estimated €34 billion of benefits to consumers every year

EEX and EPEX SPOT assessment on selected ACER measures for policy makers:

1. Speed up electricity market integration, implementing what is already agreed

We agree with ACER that **market integration is core to the energy transition**. Accordingly, the amount of cross-border interconnection capacity available should increase significantly in line with the binding 70% target. In addition, EPEX SPOT is intensively working towards the implementation of ongoing Market Coupling projects. The Core Flow Based Market Coupling project is expected to go live at the beginning of June 2022.

The bidding zone review should be open to both mergers and splits. Using member state borders as boundary condition excludes configurations of two or more countries that could turn out efficient in the future. We recommend allowing mergers between bidding zones. A nodal pricing system would not improve the existing market design, causing extra costs and inefficiencies. Therefore, we do not share ACER's positive view on smaller bidding zones, as detailed in the report.

2. Improve access to renewable Power Purchase Agreements (PPAs)

Investments in renewable energy sources need to be scaled up. As such, the **market design should focus on market-based remuneration**, namely wholesale market revenues, revenues from GOs, PPAs, etc. EEX and EPEX SPOT have been actively developing different market-based revenue streams for renewables (e.g., 15- and 30-minutes trading products, trading close to delivery, GO auction market).

3. Improve efficiency of renewable investment support schemes

We believe that the ACER report is **not ambitious enough to integrate renewables into the market and detach from government support** schemes (e.g., feed in tariff, feed in premium, contracts for difference). In fact, such instruments distort the price signal and hinder investment in flexibility. Already today, lower technology costs and higher CO2 prices in the EU ETS ensure the profitability of many renewable systems. In addition, there are liquid futures markets to hedge against uncertainties. Consequently, there is no need for the state to take price risks via support measures such as CfDs. Overall, support schemes should always be clearly limited in time, periodically updated, market-based and harmonized at EU level.

4. Stimulate "market making" to increase liquidity in long-term markets

We agree with ACER that **liquidity in forward markets plays an essential role to provide optimal hedging opportunities**. Already today, market making is a well-established practice on forward markets and a cornerstone of liquid European energy markets. If a company is admitted as a trading participant on the EEX, it can become a market maker and benefit from the respective remuneration. An independent (voluntary) market making on the exchange with obligations to ensure a relatively tight bid-offer spread in continuous trading plays an important role in facilitating liquidity. There seems not to be the necessity for regulatory intervention. A main barrier of liquid long-term markets is not the so-called "high-fees" as stated in the assessment, but rather the implications of the three-year bidding-zone review. The three-year bidding-zone review limits liquidity beyond 1-3 years, as there is the inherent risk that such a review might change the underlying of the respective forward market.

6. Review (and potentially reduce, if warranted) collateral requirements

We want to re-instate the necessity of adequate **collaterals reflecting market conditions like high prices and high volatility**. Collaterals secure the respective higher risks according to the regulatory framework in the European Market Infrastructure Regulation (EMIR). In these turbulent times, clearing operations continued to run smoothly.¹ Lowering standards, or the respective collaterals could increase the inherent risks in the market. At the same time ECC is committed to ensure efficient and transparent collateral requirements and ESMA is also working on further improvements. Furthermore, we welcome **the proposed short-term government backed guarantees to mitigate the impact of very high collateral requirements in exceptional situations like the announced program of KfW in Germany that can be used as a blueprint for other EU member states**.

7. Preserve the wholesale price signal and remove barriers to demand resources providing flexibility

Any design improvement should be market-based, with the least possible market intervention and distortion of the transparent price signal. Keep relying on **price formation based on marginal costs** which leads to the most efficient dispatch, lowers costs for consumers, and sets the right incentives to invest in clean technologies. Regarding the pricing mechanism of the Day-Ahead Auction, we agree with ACER that a **pay-as-bid model would not be an efficient alternative** to the current pay-as-clear model.

We support ACER's view that more flexible resources are needed to address increased volatility of the power system. **Flexibility needs to be recognized and traded in the market**. For such purposes, EPEX SPOT acquired a Local Energy Market platform (LEM), to provide a market-based solution for energy flexibility trading. **One should rely on neutral platforms and operators for a transparent matching of orders and emergence of meaningful price signals**. We do not believe in the ability of scarcity pricing and capacity mechanism to trigger large investments in flexible resources. The latter should be a measure only of last resort.

13. Consider a "temporary relief valve" for the future when wholesale prices rise unusually rapidly to high levels

We dispute ACER's assessment when recommending the adoption of structural measures (e.g., temporary relief valve mechanisms) to shield end-consumers from future soaring prices. In fact, such measures should preserve the price signal and the common level playing field in the EU. The EU Commission's toolbox already offers a list of such measures, like lump-sum payments, state aid or tax reduction. Such measures can be effectively tailored to address people and businesses in need. **Ill-designed emergency measures (e.g., price caps) distort price signals, roll back EU market integration, endanger security of supply and the path to decarbonization.**²

We invite European decision makers to take our considerations into account while fostering an integrated and competitive European electricity market.

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¹https://www.eex.com/fileadmin/Global/News/EEX/EEX_Opinions_Expert_Reports/20220414_The_importance_of_keeping_energy_markets_open_EEX_EPEX.pdf

²https://www.eex.com/fileadmin/Global/News/EEX/EEX_Opinions_Expert_Reports/20220413_EEX_Wholesale_Price_Cap_clean.pdf