

Brussels, 25 May 2022

Joint industry call: using the Internal Energy Market as a tool to manage this crisis and an asset to build the future

Dear Heads of State and Government,

Dear Energy Ministers,

As the European Council meeting of 30 and 31 May approaches, we reach out to you to stress the importance of the Internal Energy Market in meeting the goals of the European Union of energy affordability, security of supply and decarbonisation. We urge Member States to consider its added value in managing the immediate effects of this crisis and in shaping the energy sector of the future.

What ACER tells us: the market is delivering on its objectives and should continue to do so

Upon request of the European Commission and supported by the European Council, the Agency for the Cooperation of Energy Regulators (ACER) conducted an analysis of the functioning of electricity markets. In its Final Assessment of the EU Wholesale Electricity Market Design, we note three points that are particularly relevant to the current situation:

- **The internal energy market is delivering on its objective of delivering secure, affordable and increasingly decarbonised energy supply.** European market integration has delivered €34 billion in savings in 2021 on the electricity side only¹.
- **Interventions in the market, especially those affecting wholesale energy price formation, have a high risk of distorting it.** This will reduce the benefits that energy markets can deliver. ACER very usefully ranks measures based on the extent to which different types of measures are likely to run this risk of distortion².

¹ “Over the last decade, cross-border trade and the major efforts undertaken to further integrate electricity markets in Europe have delivered significant benefits for consumers. These benefits are estimated to be approximately 34 billion Euros a year. The benefits are due to the structure of the wholesale energy market enabling cross-border trade between Member States and improving security of supply across a larger geographical area.” Excerpt from ACER’s Final Assessment of EU Wholesale Electricity Market Design, 29 April 2022, available [here](#).

² “As a rule of thumb, ACER considers that the more structural interventionist a measure, the higher the potential to distort the market, especially in the medium to long-term.” Figure 29 shows the “Spectrum of possible structural-interventionist measures relevant for the EU electricity market.” Ibid.

- **If considering national interventions, policy makers need to consider negative medium and long-term effects.** These can range from losses in cost efficiency to threats to security of supply and decarbonisation targets. Transparency on measures considered and expiry dates are necessary³.

ACER was given a clear mandate to assess the existing wholesale electricity market design and their findings are essential for decision makers to consider when setting EU energy policy in the Council, and when deciding on national energy policy matters.

What is needed now: support vulnerable consumers and stabilise the energy policy framework

The current circumstances which Europe faces are clearly exceptional and require a tailored policy response. **In the short-term, measures to protect vulnerable consumers exposed to high energy prices are essential.** Targeted support to vulnerable consumer groups (e.g., through reductions in taxes and levies, through energy vouchers or by using revenues from Emission Allowance auctions) can alleviate the financial burden on consumers without damaging the Internal Energy Market. They are the most cost-effective and least distortive way to meet the EU's objective of clean energy independence.

Navigating these tense times will also require us to **double down on efforts to shift away from carbon-intensive energy production, invest massively in clean energy alternatives, accelerate energy savings and unlock demand response.** A stable policy framework, both at national and European levels, will provide the certainty so critical to channel the required volumes of private investments into renewable energy, carbon-neutral energy supply and infrastructure.

European electricity markets have proven highly effective in ensuring a secure electricity supply to consumers, while providing incentives for clean investments. Short-term wholesale markets have ensured a cost-efficient power plant dispatch, use of transmission networks and settlement of electricity contracts. Forward markets have shielded consumers from short-term volatility in the market and have provided investment signals in renewable energy, energy storage and consumer-driven solutions, including by way of Power Purchase Agreements and long-term hedging.

What decision makers should avoid: interventions into wholesale energy price formation

We urge Member States to avoid changing the current electricity price setting mechanism. Short-term interventions such as wholesale or retail price control measures should be avoided. They lead to a patchwork of national rules which risks:

- Increasing the costs of contingency measures for consumers in the long run
- Distorting the supply/demand balance for gas or electricity and threatening security of supply
- Damaging existing efforts and investment signals to decarbonise the energy sector

³ "Overall, when addressing short-term needs, policy makers need to be careful about the negative medium and long-term implications of the measures contemplated, such as the regulatory risk involved, the impact on future financing costs for private operators and the retention (or loss) of benefits hitherto accrued by way of current market functioning. In any case, Member State transparency on the measures being contemplated and a clear end-date or end-criteria for their expiry would seem particularly important." Ibid.

A crisis is usually not the best time to take long-term decisions that disconnect a country from the standard functioning of the Internal Energy Market. **Any intervention made today will be difficult to undo tomorrow. And even if limited in time, such measures will have enduring effects on the industry and market functioning.** This will harm not only suppliers and investors but also consumers by reducing the benefits of integrated European energy markets.

How to proceed from here: improve energy markets and foster dialogue with the industry

Keeping the supply of energy affordable and secure is on everyone's mind at the moment – staying in line with net-zero objectives should be too. Distorting the signals currently conveyed by the European wholesale electricity, gas and carbon markets would make it more difficult and more expensive to fulfil the EU Green Deal. Further, it would not address our overreliance on imported fuels which threatens the security of our energy supply, nor would it preserve the dispatch and investment signals necessary to keep energy affordable for consumers.

Should national interventions be considered, we urge Member States to ensure that the measures they propose are limited in time, scope, and effect on the Internal Energy Market. **As per the European Commission's REPowerEU package, proposals should be subject to a thorough cost-benefit analysis and the energy industry should be consulted before any decision is taken.** In particular, any intervention should strictly respect recent EC guidelines on the matter to limit distortive effects on the Internal Energy Market (namely Annexes 1 and 2 of COM/2022/138 and criteria under REPowerEU Communication COM/2022/236). We stand ready to put our experience and practical knowledge to the service of Member States.

Above all, we remain positive that **the Internal Energy Market is part of the solution to the crisis we are facing now, and that its functioning can be improved to remain an asset in the future** for the European Union and its Member States. Building upon ACER and EC recommendations, we encourage Member States to further discuss how to optimise electricity market design in the long-term, in particular to further enhance long-term price signals to achieve a net-zero power system. The electricity industry is keen to actively contribute to those upcoming discussions.

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