

EFET Core Principles for Energy Markets

Short form version

Final July 2021

1) **Competition and market access**

Wholesale markets in all energy commodities and related products (including forwards, futures and options) and services should be open to competition and intermediation. In addition, trade in energy commodities and related contracts and instruments across borders must be unimpeded by artificial barriers, whether tariff or non-tariff in character.

2) **Access to networks**

The management, operation – and ideally the ownership - of electricity and gas transmission and distribution systems should be fully unbundled from other energy businesses. TSOs must not deny or restrict access to interconnected transmission systems nor between hubs except in the case of binding physical congestion.

3) **Wholesale energy markets and price formation**

The key signal coming from the market is the price. Undistorted and transparent prices, emerging from a variety of types and duration of contract, give an accurate signal for production, storage or dispatch in the short term, and for investment and divestment in the long term. Regulators and exchanges should allow energy prices to reflect the true value of scarcity during times of system stress and high demand; similarly, when energy is in abundance, prices should be allowed to reflect the value of displacing production and the scope for increased consumption.

4) **Generation adequacy and capacity remuneration mechanisms**

The energy only market should normally be left to answer inadequacies in capacity. Nonetheless, in a decarbonising economy, featuring greater penetration of renewable energy production and thus inherent intermittency, remuneration of standby capacity may be needed for a period, in order to supplement a weak or unreliable investment signal for peaking generation or storage assets conveyed by an energy only market.

5) **Transparency**

TSOs or alternative aggregators of information must publish on an easily accessible electronic platform *ex ante*, granular data about the physical availability of production as well as transmission infrastructure. Real-time, disaggregated information on the use of assets and *ex post* data about rates of utilization should be published in downloadable formats on a rolling basis.

6) **Freedom of choice of trading venue**

Wholesale energy market participants should enjoy the freedom to choose how and where, particularly on which trading platforms, to post their bids and offers and execute their transactions

7) **Carbon pricing**

The EU ETS, together with expedient, parallel but transitional carbon pricing schemes for newly added large sectors such as transport and heating, should play the central role in Europe's climate action policy. The carbon abatement signal given by the price of EU CO₂ emission allowances can contribute incrementally to the transition to a net zero economy. Its contribution will be reinforced if the price is embedded in a new EU

carbon border adjustment mechanism applying to imported power and energy intensive manufactured products, while the free allocation of allowances is phased out.

8) **Integration of renewable energy in wholesale markets**

Financial support, where needed to help achieve volumetric renewable consumption targets, should be allocated to producers using competitive mechanisms. Support schemes should be of limited duration, least distortive of price signals and made progressively open to participation across national borders. On the other hand, financial support, once granted, should not be changed retroactively. The design of support schemes should not involve operational privileges for renewable energy producers nor disincentivise their participation in energy markets, nor undermine the efficient functioning of markets.

9) **Technology neutrality and allocating system costs**

The European energy market design and the regulatory frameworks governing the wholesale electricity and gas markets should function independently of production technology used and technical specifications of energy carriers. Any production or switching incentives introduced to favour renewable or low carbon energy must be focused on the relevant policy goals of emission reduction, RES stimulation or energy efficiency, rather than penalising users of legacy assets.

10) **Flexibility and storage**

An efficient energy market should deliver the right mix of flexible capacity – whether capacity for production, demand, storage or conversion. Access to and use of energy storage and energy carrier conversion facilities should be commercially driven as far as practicable.

11) **System balancing**

Market participants should be able to adjust their portfolio positions as close as possible to real-time in electricity, or during the balancing period in gas. Balancing actions of electricity TSOs should be limited to the period closest to real-time, after the intraday gate closure; in the gas sector, balancing markets should enable TSOs to balance the system entirely through multilateral within-day and day-ahead markets.

12) **Market integrity**

The legislative and regulatory frameworks needed to underpin wholesale energy market integrity should reflect the particularities of commodity markets entailing physical delivery of energy on the one hand, and of markets in energy derivative contracts constituting financial instruments on the other. Specific rules within those frameworks should be proportionate to the limited commercial and systemic risks posed by trading in energy commodities.

13) **Standardization**

Standard contracts and standard IT protocols for the exchange of transaction data are crucial tools, developed by EFET, to facilitate open, liquid and transparent energy markets at the wholesale level, especially in relation to OTC transactions.