NORDENERGI

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Nordenergi's position on the electricity market design reform

Nordenergi welcomes the Commission's proposal to build on and further develop an integrated and well-functioning European electricity market. The Commission proposes several amendments in the current electricity market regulation to make it more future proof while also creating a buffer between short-term markets and electricity bills.

While there are many positive aspects of the Commission's proposal on amendments to improve the Union's market design, Nordenergi is concerned about some parts of the proposal. Some amendments are unclear, and others leave room for interpretation, so there is a need for further information and further analysis have to be done.

Positive:

1. The Commission recognizes and emphasizes the **important role of well-functioning and efficient short-term markets and cross-border interconnectivity**.
2. Delaying the intraday gate closure time increases the possibilities to a **cost-efficient management of variable production**.
3. Possibilities to use congestion rents to compensate offshore generation plant in an offshore bidding zone if access to interconnected markets is limited.
4. Reducing investor uncertainty by **not including inframarginal income cap** in the regulation and not enabling MS to **retroactively impose Contracts for Difference on existing generation**.
5. TSOs shall publish in a clear and transparent manner, information on the capacity available for new connections in their respective areas of operation and update that information regularly, at least quarterly.

Elements of concern:

1. **Mandatory hedging strategies for retailers.**
    - We see the mandatory hedging requirements as restriction of business models of suppliers and retail competition rather than a measure for the benefit of customers.

- During the current crisis, retailers who only offers dynamic contracts have grown rapidly. For these suppliers mandatory hedging strategies makes little sense and will just result in higher costs for customers.
- Instead of creating different obligations, the focus should be on developing hedging opportunities and removing different obstacles in their way to enable efficient hedging for suppliers.

2. **Requiring suppliers' hedging to be connected to specific instruments, such as PPAs.**
    - The suppliers must have freedom of choice on how to hedge their procurements. Setting requirements to use some specific instruments would limit the competition in retail markets and increase supplier's risks and costs.
    - Nothing in the current regulation prevents retailers to engage in PPAs but the demand for long term electricity contracts on fixed terms is very low. This is because PPAs are typically multiannual agreements whereas households' seldom have an interest in contracts for more than three years, which implies a fundamental temporal mismatch. Retailers should hedge their contract portfolio, which typically extends maximum 2-3 years into the future, not take speculative bets on the market by doing 5–25-year PPAs and should not be required to do such speculative betting. Forcing retailers to hedge using long-term PPAs increases the risk of bankruptcy substantially, which is not in the interest of their customers and are against the goal to ensure that suppliers trade in a prudential way.
    - In the light of strong rules regarding consumer protection, it also constitutes a risk for the supplier where customers can change supplier with short notice and with limited possibilities to secondary trading.
3. **Central focus on Long Term Transmission Rights (LTTRs) without reference to the current exemption in the current electricity regulation and the FCA guideline, which enables the use of "equivalent measures" to support cross-zonal hedging opportunities.**
    - In the Nordics, financial hedging is generally done by combining a product linked to the Nordic system price in combination with a financial contract enabling market participants to hedge the differential between this "hub price" and their respective price area (Electricity Price Area Differential, EPADs), rather than LTTRs. We consider it important that the legislation does not oblige the use of certain types of hedging instruments if a functional alternative option is available.
    - We would also like to note that ACER in its policy paper on the development of the financial forward market recommends to still enable the use of "equivalent measures" to LTTRs. A shift to LTTRs could in these regions be considered as too disruptive.
4. **Monopolizing the financial market by assigning too much responsibility to ENTSO-E and the single allocation platform.**
5. **Energy sharing should be enabled also through financial solutions, rather than having a physical approach without prejudice to applicable taxes, levies and network charges.**
6. **The Commission may unilaterally declare an electricity price crisis. This is to place too much power in the hands of the Commission and the development during the fall has shown that Member States are able to act and agree on emergency measures when needed. Besides, the thresholds for declaring a crisis must be clear and appropriately high.**
    - Given thresholds in the proposal are really low and at least pre-determined lower threshold should be introduced which need to be exceeded. The threshold should be placed high enough so that investors' confidence in the market is not shaken.
    - The Commission may unilaterally declare an electricity price crisis and we suggest that to distribute the power in such circumstances, commission must find a consensus with at least one another party (e.g., the Council) before declaring electricity price crisis.

7. **Amendments in the REMIT regulation**
    - It is not acceptable that the guidelines and recommendations of ACER are binding without subject to necessary impact assessments, political considerations or stakeholder involvement.
8. **In some instances, the Commission goes into great detail with regards to the exact implementation. These details might be better left with the local authorities to ensure sufficient time for the parties to make efficient solutions for example regarding.**
    - The six-month deadline for display of long-term cross-zonal capacity.
    - Customers are entitled to have more than one metering and billing point.

Although we more or less can agree with the mindset of other amendments, we need further information to enable an analysis of the actual impact and consequences. The discussions during the latest year, not the least within Eurelectric, shows that although the same terminology is used, it has shown that we do not always share the same definition of some expressions.

What is e.g., meant by a fixed term, fixed price electricity supply contract which could include flexible elements. From our horizon this is a contradiction in terms. It is also highly unclear how the peak-shaving product will interact and interfere with products traded on other platforms.