Union’s electricity market design

2023/0077A(COD) - 26/06/2024 - Final act

PURPOSE: to improve the design of the integrated electricity market, in particular to prevent unduly high electricity prices.

LEGISLATIVE ACT: Regulation (EU) 2024/1747 of the European Parliament and of the Council amending Regulations (EU) 2019/942 and (EU) 2019/943 as regards improving the Union’s electricity market.

CONTENT: very high prices and volatility in electricity markets have been observed since September 2021. The escalation of the Russian military aggression against Ukraine, a Contracting Party of the Energy Community, and related international sanctions since February 2022 have disrupted global energy markets, exacerbated the problem of high gas prices, and have had significant knock-on impacts on electricity prices.

This regulation is part of a package of measures aimed at **reforming the organisation of the electricity market**. The aim of this reform is to make electricity prices less dependent on the volatility of fossil fuel prices, to protect consumers against price spikes, to accelerate the deployment of renewable energies and to improve consumer protection.

Regulation (EU) 2019/943 on the internal market in electricity, as amended, aims to lay the foundations for the effective achievement of the objectives of the Energy Union and the Union's objective of climate neutrality by 2050 at the latest, including the 2030 climate and energy policy framework, by making it possible to produce market signals encouraging efficiency, a greater share of renewable energy, security of supply, flexibility, system integration through multiple energy carriers, sustainability, decarbonisation and innovation.

The amending Regulation also aims to establish the fundamental principles underpinning efficient and integrated electricity markets, which:

- ensure non-discriminatory market access for all resource suppliers and electricity customers;

- enable the development of forward electricity markets to allow suppliers and consumers to hedge or protect themselves against the risk of future volatility in electricity prices, empower and protect consumers;

- ensure competitiveness on the global market;

- enhance security of supply and flexibility through demand response, energy storage and other non-fossil flexibility solutions;

- ensure energy efficiency, facilitate aggregation of distributed demand and supply, and

- enable market and sectoral integration and market-based remuneration of electricity generated from renewable energy.

The regulation aims to support: (i) long-term investment in renewable energy generation, flexibility and grids to enable consumers to make their energy bills affordable and less dependent from fluctuations of short-term electricity market prices, in particular fossil fuel prices in the medium to long-term; (ii) lay down a framework for the adoption of measures to address electricity price crises.

Power purchase agreements (PPAs)

Power Purchase Agreements (PPAs) are long-term contracts providing stability for consumers and investors. Member States will encourage the use of PPAs in order to ensure price predictability and to achieve the objectives set out in their integrated national energy and climate plans as regards the decarbonisation dimension, including renewables, while preserving the competitiveness and liquidity of electricity markets and cross-border trade.

Member States will ensure, in a coordinated manner, that instruments, such as guarantee schemes at market prices, to reduce the financial risks associated to offtaker payment default in the framework of PPAs are in place and accessible to customers that face entry barriers to the PPA market and that are not in financial difficulty.

The regulation also provides an assessment from the European Union Agency for the Cooperation of Energy Regulators (ACER) on the market for PPAs based on the information from the database provided for in the REMIT regulation.

Direct price support schemes in the form of two-way contracts for difference for investment

Direct price support schemes for investment in new power-generating facilities for the generation of electricity from wind energy, solar energy, geothermal energy, hydropower without reservoir and nuclear energy will take the form of two-way contracts for difference or equivalent schemes with the same effects.

All contracts will be designed to: (a) preserve incentives for the power-generating facility to operate and participate efficiently in the electricity markets, in particular to reflect market circumstances; (b) avoid undue distortions to competition and trade in the internal market.

The rules for two-way contracts for difference will only apply after a transition period of three years after the entry into force of the regulation, in order to maintain legal certainty for ongoing projects. The provisional agreement provides flexibility as to how revenues generated by the state through two-way contracts for difference would be redistributed. Revenues would be redistributed to final customers, and they may also be used to finance the costs of the direct price support schemes or investments to reduce electricity costs for final customers.

Indicative national objective for non-fossil flexibility

Each Member State will define an indicative national objective for non-fossil flexibility, including the respective specific contributions of both demand response and energy storage to that objective. The regulation defines design principles of non-fossil flexibility support schemes.

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