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Shaping EU climate and energy policy: Insights from and questions for the Ariadne project

ELECTRICITY MARKET DESIGN OF THE FUTURE – HOW CAN CFDS ADDRESS THE PROMOTION NEEDS OF RES?

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OVERVIEW: CFDS IN THE ELECTRICITY MARKET DESIGN REFORM

COM-Proposal on the electricity market design reform

New chapter IIIa: Specific investment incentives to achieve the Union's decarbonisation objectives

- New Art. 19b: Direct price support schemes for new investments in generation shall take the form of a two-way contract for differences for
  - Wind, solar, geothermal energy, hydropower without reservoir and nuclear energy
  - Rec. 32: Special rules for renewable energy communities, small-scale and demonstration projects

14.03.2023

- COM proposal on reform of electricity market design

19.07./14.09.2023

- ITRE agrees on trilogue position and proposes simplified procedure
- Confirmation of ITRE decision by EP

19.06./17.10.2023

- Council can only agree on REMIT Regulation
- General approach for the rest of the reform

Ongoing trilogue

- Goal: Finalisation this year or at the latest in time before the EU elections

PROMOTION OF RES NOW AND IN THE FUTURE

Current rules for RES promotion in the RED

- Support schemes [...] shall be designed so as to maximise the integration of electricity from renewable sources in the electricity market and to ensure that renewable energy producers are responding to market price signals and **maximise their market revenues.**
- To that end, with regard to direct price support schemes, support **shall be granted in the form of a market premium**, which could be, inter alia, sliding or fixed (Art. 4 (3) RED II)

Future provisions by the EMD regarding CfD

- Proposal (COM/Council): Funding only via two-way contracts for difference (EP: **or equivalent measures**)
- Art. 2 No. 76 (new): 'two-way contract for difference' means a contract signed between a power generating facility operator and a counterpart, **usually a public entity, that provides both minimum remuneration protection and a limit to excess remuneration**; the contract is designed to preserve incentives for the generating facility to operate and participate efficiently in the electricity markets and complies with the principles set out in Article 4(2) and Article 4(3), first and third subparagraphs, of Directive (EU) 2018/2001;

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DISCUSSION POINTS IN THE TRILOGUE

Commission	European Parliament	Council
	What type of investments fall under Art. 19b?	
•New investments (shall include investments in new power-generating facilities, investments aimed at repowering, extending or prolonging existing facilities))	•More safety guards intended: extension only if the increase of power generation capacity is substantial, funding only for the new share)	•Deletion of the definition of new investments (**investments in new-power-generating facilities“)**
	Entry into force: Transition periods?	
•Entry into force on the [xxx] day following that of its publication (Art. 5 of reform package)	•New investments: **1 year after the date of entry into force**	•Investments **in new generation**: **3 years** •Offshore connected to min. 2 bidding zones: **5 years**
	Requirements for CfD awarding	
•Competition between electricity suppliers shall not be undermined (agreement by EP an Council)	•Maintaining rule/exception ratio for auction schemes •Consideration of locational criteria	•Referral to State Aid law (Art. 19b 1b)
	Provisions for CfD design, i.e.	
	•Retaining **incentives to operate and participate efficiently in the electricity markets** •Penalty clauses in case of unilateral early termination •**Minimization of the possible negative impact on the liquidity of the forward market** an on competition between suppliers	•Retaining **incentives to operate and participate efficiently in the eletricity markets** •**Prevention of distortive effects** (bidding behaviour, dispatch, maintenance decisions) •Minimum remuneration protection and upward limit must be aligned with costs of new investment
	Use of revenue?	
•Distribution to final electricity consumers (Rec 34: to **all** final customers **based on their consumption**)	Special consideration for: •**Vulnerable customers** •**Compensating the costs of the support scheme** •**Investments for the energy transition** •**Energy-intensive industries**	Special consideration for: •Probably: vulnerable customers (Rec 34) •Compensating the costs of the support scheme •Investments to reduce electricity costs

CONCLUSIONS

- The promotion for many renewable technologies will very likely only be possible via CfDs in the future
- Regardless of any transition period, Member States may have to propose new rules sooner (depending on their state aid commitment, i.e. Germany must limit profitability and/or implement clawbacks by 30.06.2024)
- The proposals contain various additional targets and criteria for CfDs which will lead to a trade-off
- Nevertheless, Member States will (presumably) have a large margin of discretion in the specific design of CfDs
  - The reform proposal does not stipulate that the CfDs must be standardised for all technologies
  - Technology-specific funding is therefore still possible if the requirements of state aid law are observed
- It is therefore particularly worthwhile looking at different use cases with different design options

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