Thüga Statement Status: 8.4.2023

on the EU Commission's draft

on improving the Design of the Electricity Market

of March 14, 2023

Amendments to Regulation 2019/943

- **Promote liquidity in the forward markets by creating Virtual Trading Hubs across multiple bidding zones (Art. 9)**

  By 1.12.2024, ENTSO-E shall deliver a proposal to ACER;

  Thüga:

  We do not consider an introduction of **virtual trading hubs** to be helpful, as far as forward contracts (monthly and annual contracts) are concerned: Due to limited coupling capacities, this would **reduce the necessary liquidity on the spot market** (day ahead).

- **Modification of network tariff regulations (Art. 18)**

  National regulators should provide incentives to distribution system operators to operate and expand their grids as cost-efficiently as possible;

  Including use of flexible network charges;

  Thüga:

  The introduction of **stronger fixed cost contributions** as part of the network charges, also for previous SLP customers, seems sensible to us.

  We reject a general obligation for distribution system operators to offer flexible network charges due to the associated high expenses and at the same time limited benefits. **On a voluntary basis**, however, distribution network operators should be able to offer **individual tariffs with variable network charges** in order

to be able to provide incentives - depending on local conditions - for network users to behave in a way that is beneficial to the network. The prerequisite, however, is that customers have smart metering systems.

- **Promotion of the market for Power Purchase Agreements (PPAs) (Art 19a)**

  Implementation by member states

- **Thüga:**

  If a standardization and tradability of PPAs leading to more transparency is not introduced and PPAs reach a relevant market share, a **publication of the key data of newly concluded PPAs in an anonymized form** (transparency on quantities, terms, prices) could counteract a drifting apart of the prices of the trading market and PPA transactions.

- **Promotion of the expansion of renewable energy plants via Contracts for Difference (CfDs) (Art. 19b).**

  Thüga:

  By contract for difference, we mean a support model in which both **positive and negative deviations from a fixed reference price** are paid out to the contracting party (symmetrical market premium).

  The addition of RE plants can be stimulated via two-sided CfDs; however, the support instrument should **only be applied to new plants**.

  If, in the case of CfDs, minimum revenues are guaranteed on the one hand (and the price risk is thus partially reduced for the investor), revenues above a defined revenue limit can also be skimmed off on the other hand. From an economic perspective, this can **reduce the overall costs of subsidies**.

  By **promoting fixed feed-in quantities** independent of the feed-in period (instead of arbitrary feed-in quantities over a fixed period), it is possible to ensure that the plants are used when appropriate revenues are generated (i.e., fundamental effect towards a system-serving use). No compensation should be paid when exchange prices are negative.

  In addition to the use of CfDs, however, member states should be allowed to **use other support instruments** to accelerate the expansion of renewable energy plants.

- **Promotion of "green flexibility mechanisms" (DSM, DSR) (Art. 19c/d/e/f)**

  Member states shall define national targets for non-fossil flexibility such as demand side response and storage;

  Implementation via member states;

  Thüga:

  Flexibility potentials are likely to be of particular interest **to energy-intensive industries**. SMEs and households (e-cars, heat pumps) may also be able to leverage flexibility potential; however, we see the potential here as comparatively low, while hurdles and effort in this segment are comparatively high.

  Near-load generation and flexibility capacity can, in our view, make an important contribution to meeting the growing demand for firm and dispatchable capacity needed to maintain security of supply. Such near-load generation and flexibility capacity can be ideally provided by municipal utilities/regional electric utilities, including:

  o CHP plants
  o Demand response offers
  o Redispatch 2.0 or follow-on mechanisms.

  Due to their high flexibility, avoidance of grid expansion (and thus time gain and cost reduction), efficiency advantage in combination with local thermal sinks (CHP), and high acceptance by the public, such near-load generation and flexibility capacities should be promoted.

  The current Energy Only Market (EOM) in Germany is known to have significant deficits, as it does not provide sufficient incentives for firm and dispatchable generation capacities. To address these deficits and to counteract the growing capacity gap, the existing **EOM needs to be complemented by a decentralized capacity market** in which supply and demand for secured capacity can be balanced via market mechanisms. This can provide incentives to create the necessary **medium-term flexibility** to bridge dark slack periods (up to 3 weeks in length).
  This necessary flexibility segment is not addressed in the EU Commission's draft; only short-term flexibility measures are dealt with here.

Amendments to Regulation 2019/944

- **Introduction of dynamic electricity price contracts as mandatory offer (Art. 11)**

  Implementation by member states

  Thüga:

  The conclusion of such contracts should be possible **on a voluntary basis**, but no obligation to offer such contracts should be introduced.

  Particularly in times of highly volatile energy markets (cf. 2022), such contracts can significantly overburden retail customers (no price smoothing as with classic contracts).

- **"Energy sharing" of retail customers ("active customers") within a bidding zone (Art. 15a).**

  Thüga:

  As local, citizen-oriented players in the energy sector, municipal utilities often offer their own services for bundling local energy demand and are generally open to energy sharing solutions.

  However, here, too, it is important to find **fair solutions for bearing the resulting costs**: Services by network operators/energy suppliers (infrastructure and system costs) must be borne by those who use them.

- **Requirements on hedging strategy for energy distributors**

  Implementation via national regulatory authorities (Art. 18a).

  Thüga:

  Due to the increased price volatility on the energy markets, the risks associated with energy procurement have risen significantly for distributors. In order to limit these risks, it appears reasonable that the **energy volumes** procured by traders **must be price-hedged to a certain extent**. This can reduce the risk that energy traders become insolvent when market prices rise or that they terminate their contracts with customers in order to relieve themselves of their supply obligations, and that the basic suppliers then have to absorb these customers via the basic/substitute supply.

- **"Supplier of last resort" for household customers (Art. 27a)**

  Supplier of last resort to be designated by member states in fair and transparent procedure.

  Thüga:

  The current **German model** (basic/substitute supplier is the utility company with the most customers in the respective supply area) **should be maintained**.

  The extent to which the existing regulations in Germany on basic/replacement supply are compatible with the EU legislative proposals must be examined.

- **Introduction of a crisis mechanism authorizing the EU Commission/Member States to intervene on prices (Art. 66a).**

  Proclamation of a regional or EU-wide price crisis by Commission under certain conditions (vague with forecast on price development for 6 months);

  Consequence: member states can set prices;

  Thüga:

  In principle, prices should be allowed to form freely in markets; **state market intervention should be avoided** as far as possible. Government intervention creates uncertainty in the market, which unsettles investors. Furthermore, this reduces signals that are in themselves sensible for the expansion of generation capacities or for incentives to save energy.