CEMBUREAU
The European Cement Association

POSITION PAPER

ELECTRICITY MARKET REFORM

Brussels, May 2023

On 14 March 2023, the European Commission presented its Draft Regulation to improve the Union's electricity market design as well as an accompanying Staff Working Document. The proposal contains a number of positive elements but does leave the impression that the reform needs to be rushed through before the end of the Commission's mandate and therefore needs to avoid any deep reform of the electricity market.

Scope of the reform – missed opportunity to assess future demand

A reform of the electricity market is of crucial importance, both for Europe's citizens and the competitiveness of its industry. The purpose of the reform should certainly address the fall-out of the energy crisis and facilitate investment in clean technologies.

In light of the EU's 2050 carbon neutrality objective, however, the reform also offers a unique opportunity to address the need for a robust electricity market to underpin the decarbonization process of industry and more specifically of energy intensive industries such as the cement sector. The implementation of decarbonisation breakthrough technologies in the cement sector will result in an increased electricity demand between 66% and 170%, depending on the technology applied.

The items addressed in the proposed reform (development and integration of renewables; long-term contracts; peak-shaving products; flexibility needs, demand-side response and storage) need to be embedded in a larger assessment of electricity needs in a decarbonizing society. It is unfortunate that the Commission has not seized this opportunity to get a clearer picture of future electricity demand and has opted for a (more limited) Staff Working Document to accompany this proposal instead of an impact assessment that includes an assessment of future demand and lays out different scenarios under which the demand could be met.

Investment decisions for decarbonisation projects are made now and the strength of the business case depends on access to low carbon electricity at reasonable prices. There is a "sense of urgency" in preparing the electricity market to act as a key enabler for the decarbonisation and wating for the next Commission to take on this task is simply too late.

Addressing price increase but also (dispatchable) capacity

As to the impact of the high electricity prices, the European Union faced a "multi-crisis year" in 2022[1] with annual wholesale electricity prices twice as high (on average) compared to 2021 and significantly higher, up to this date, than electricity prices in competing jurisdictions, most notably the US. These price increases took place in the context of a lower nuclear output (-17% compared to 2021 due to closure and maintenance) and lower hydropower production (more than 30% decrease in Italy; -29% in Spain, -20% in France) and a consequential reduction of dispatchable capacity.

[1] Term used in the "2023 Electricity Market Report", International Energy Agency.

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In this context, a more targeted approach to security of supply should be part of the reform proposal taking into account the future availability of low carbon energy sources (hydropower, geothermal, nuclear) other than renewables and the feed of dispatchable capacity versus electricity from variable renewable sources. In this context, a clear path for phasing out fossil-based electricity generation (which has increased over the crisis period) should be designed.

Specific remarks on the proposed reform

CEMBUREAU highlights the following points in relation to the proposed market design reform:

- ✓ Risk of increased volatility in short-term markets: the proposal focuses on the development of renewables at a pace which is two- to threefold today's progress; the suggested speed of the development and the uncertainty on the enabling conditions such as permitting and public acceptance, risk to create uncertainty and trigger more volatility in the short-term markets and therefore runs counter the very effect the Commission had in mind with this proposal;

  CEMBUREAU suggests an automatic triggering of a compensation mechanism in case of high volatility in short-term markets. The proposed new Article 66a of the Electricity Regulation allowing the Commission to declare an electricity price crisis should be made applicable to all industrial users, regardless of the size.

- ✓ Integration of renewable generation in the power system: variable energy sources (renewables) require a clear plan for their integration in the power system and their role in balancing energy; here again, a proper assessment will be needed on the degree by which demand-side flexibility can be increased and to what extent storage capacity can be expanded; for the cement industry, for instance, the potential for demand-side flexibility is limited; the proposed reform foresees in an assessment of flexibility needs by 1 January 2025 which triggers the question on the usefulness of the proposed peak-shaving products before the outcome of such assessment is known;

  CEMBUREAU suggests the peak reduction tools to be offered on a voluntary basis, given the potential impact on the normal operation of industrial processes. The development of storage technology needs to be further encouraged through R&D&I funding so that costs are not passed through to the consumers.

- ✓ Strengthening of transmission capacity provisions: an integration of a variety of energy sources and increased cross border trade of electricity due to changing import-export of electricity movements, demand a forceful incentive for Member States to increase their transmission capacity; the proposed reform limits itself to increased transparency requirements for electricity system operators;

- ✓ Declaring EU wide electricity price crisis: a new Article 66a is proposed in the Electricity Directive allowing the Commission to issue a Decision which declares an electricity price crisis; the provisions allow Member States to apply targeted public interventions but seem to focus on small and medium sized enterprises and households;

  The proposed new Article 66a of the Electricity Regulation should be made applicable to all industrial users, regardless of the size.

- ✓ Clear design rules for PPAs and CfD's: in a new Chapter III a, the Proposed Reform lists a number of investment incentives to achieve EU's decarbonisation objectives; amongst these are the PPA's and CfD's; in CEMBUREAU's view, proper attention needs to be paid to the design and interaction of both instruments in that CfDs may have a drag effect on prices offered in PPAs and the potential interest for renewable developers to sign a contract with the Government rather than with a private counterparty may limit the liquidity in the PPA market;

CEMBUREAU suggests to integrate in the new Article 19 b part of the wording in recital 36 where the complementary role of two-way contracts for difference and PPAs is emphasized.

- ✓ "Sandbox permitting" approach for energy assets on-site: the permitting process remains the main stumbling block for the development of renewables and other energy assets. We strongly plead for a simplification of this process in close concertation with the Member States and development of fast-track permitting procedures for energy assets that can be installed on-site in industrial plants and areas.

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