

EU Electricity Market Reform 2023

The European electricity system has faced several challenges in recent times including an exceptional external shock due to the disruption of Russian gas and high demand due to post-covid recovery. At the same time we are realizing an unprecedented transformation to a decarbonized electricity system.

The last year has shown that our integrated EU electricity markets works well in ensuring security of supply and reducing price volatility in comparison to a situation without integrated markets. However there is a need to strengthen the position of consumers. We also need to further optimize EU electricity markets, to ensure that we decarbonize our electricity system at the lowest societal costs.

Addressing these three key aspects in a balanced manner should be at the core of the upcoming European electricity market reform. For this reason the Netherlands emphasizes that any changes in our market design should be carefully considered, targeted in scope, and based on a thorough impact assessment.

Moreover, such an approach entails that the upcoming reform should focus on the needs of the future electricity system. This will be primarily based on renewable electricity sources combined with sufficient flexibility solutions. Especially those flexibility solutions are essential, since they ensure security of supply and help with limiting the price volatility in the system. Therefore, any instruments and changes to the regulatory framework that are considered, should carefully be assessed on their impact on the development of flexibility as well as on the roll out of renewable electricity.

To further strengthen the roll out of renewables and flexibility, sufficient investment are needed. In order to realize and safeguard these essential investments a reliable, predictable and robust market framework that inspires investors' confidence is needed. Moreover, for flexibility to develop adequate price signals are needed. Prices should reflect the actual need for flexibility in the system and should be based on marginal pricing. Considering the above, the Netherlands remains hesitant towards interventions that may limit the free formation of prices.

The future electricity system, which will be primarily based on wind, solar, nuclear and hydro, will comprise higher levels of price volatility compared to pre-crisis levels. In order to shield consumers from such volatile wholesale markets prices, the position of consumers should be further strengthened. Consumers should be free to choose the level of exposure to volatility that suits their preferences, which requires the availability of different types of contracts. And, consumers should be shielded from wholesale market price risks by requiring electricity suppliers to be adequately hedged. Moreover, the Netherlands can support any measure that help reduce electricity prices for consumers whilst also contributing to the transition to a decarbonized system.

Strengthening our forward markets can be instrumental in creating opportunities for consumers and electricity suppliers to hedge their position, and thus mitigate the risk of volatility in short term markets. However, trading on forward markets does not necessarily lead to lower electricity prices, since trading on those markets comes at an additional premium. Therefore, the focus should be on removing barriers that hinder trading on the forward markets and any barriers that may be present for current market-based instruments, such as market-based PPA's and CfD's. Any voluntary instruments should be addressed based on the principle of subsidiarity. Lastly, the Netherlands remains skeptical towards any mandatory use of specific instruments, especially when retro-actively applied to existing generation.

Finally, further integration of EU electricity markets through the implementation of existing EU legislation, and increasing the available interconnection capacity should remain a key priority, that should be reflected in market design discussions. By increasing the integration of our electricity markets, we boost security of supply, decrease system costs, decrease price volatility, allow renewable to be better integrated into the system and ensure a level playing field between industrial consumers in different member states.