



# ACER



European Union Agency for the Cooperation  
of Energy Regulators

# Long-term market design reform

NordReg 6 Dec 2022

[Insert Sensitivity Marking](#)

## Electricity market diagnostics

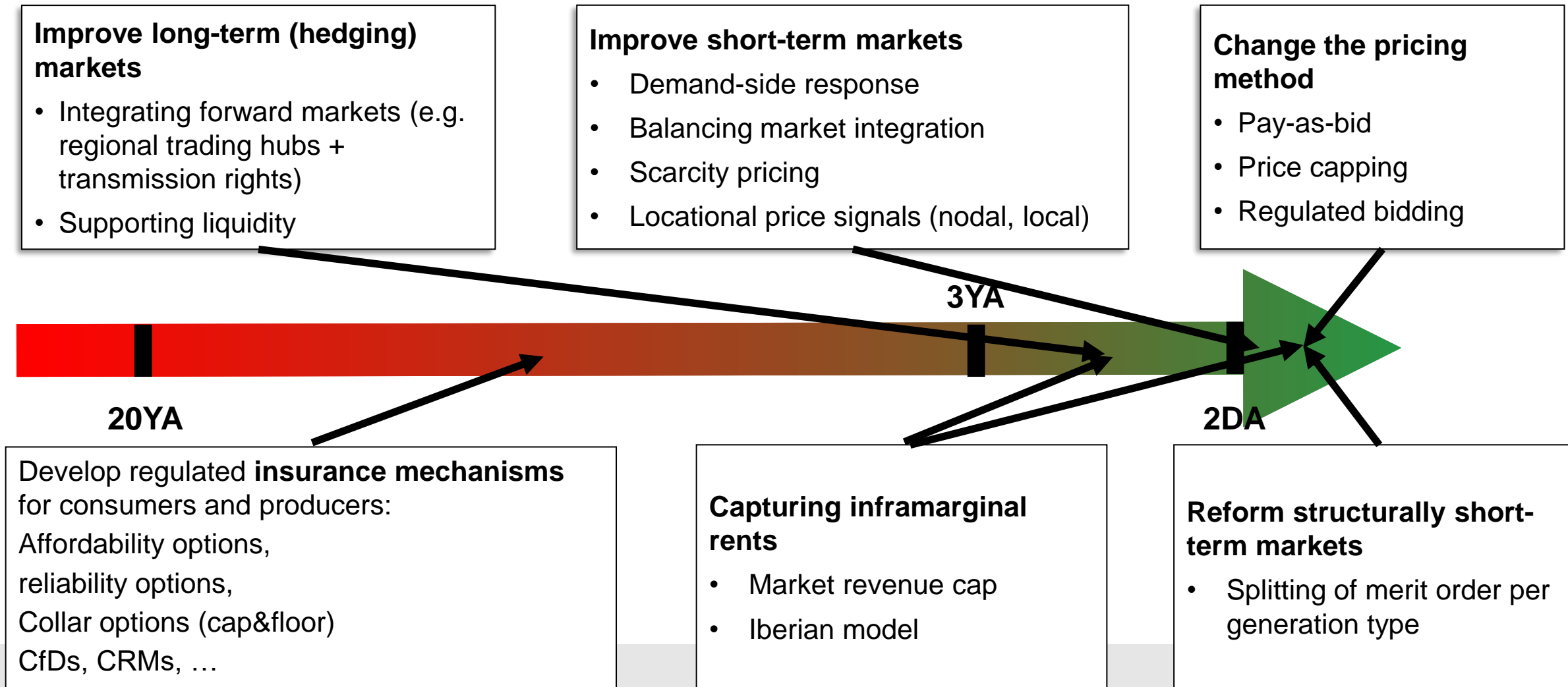
Short term market works fairly well (yet improvements still needed and planned)













































Far term market is almost non-existent (without state support)

Near term market struggles in many areas (lack of market integration)

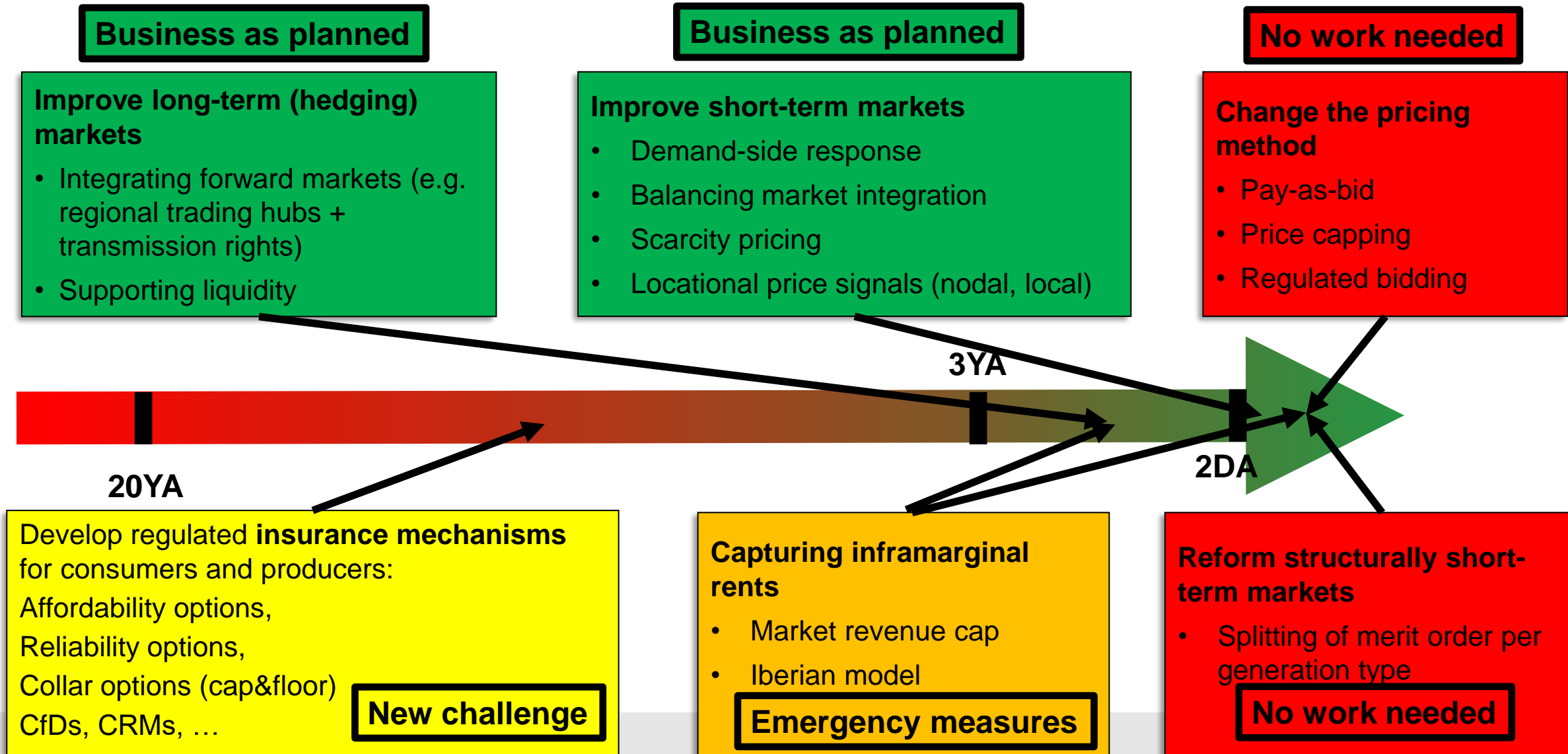
# Set of options being discussed



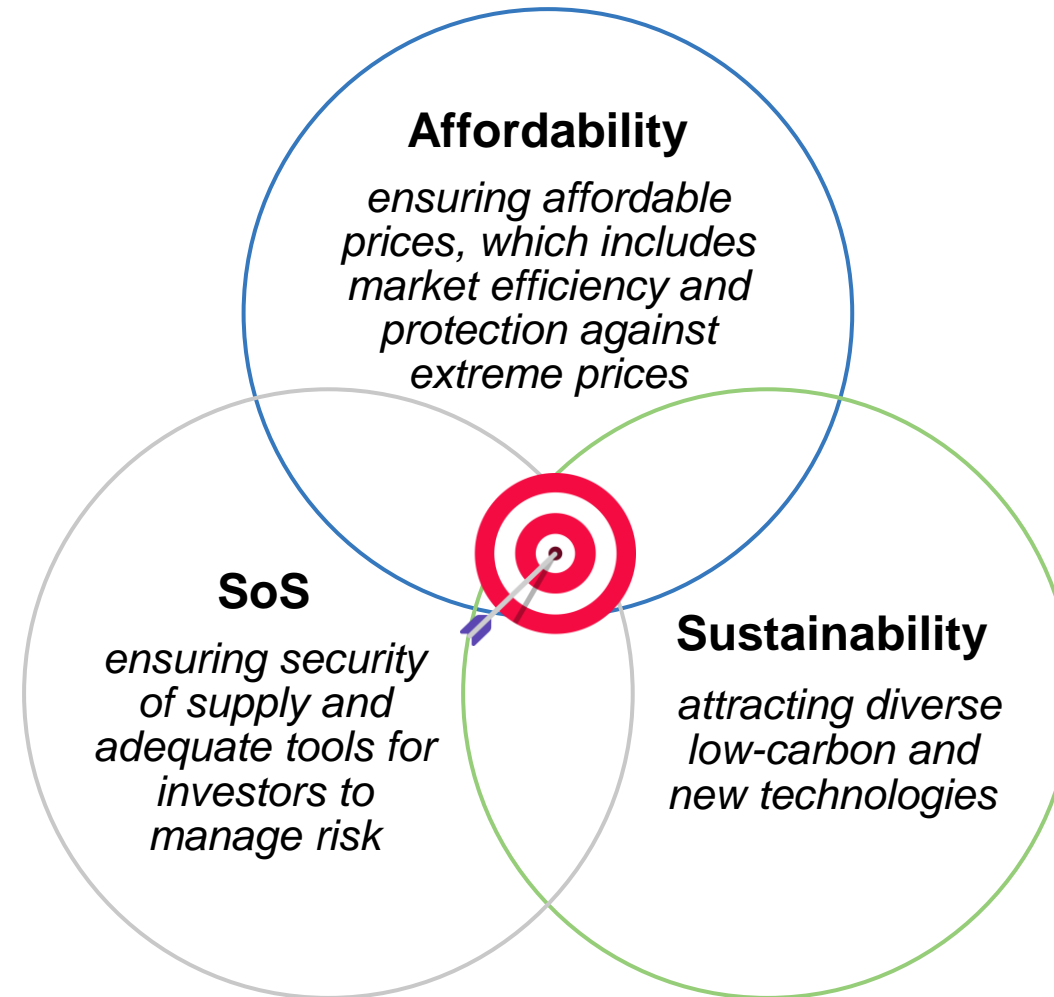
# Various EU-wide market design options assessed

	Changing the pricing method	Structural reform (merit-order splitting)	Capturing inframarginal rents	Integration of short term markets	Integration of long-term markets (hedging)	Insurance mechanisms
<b>Affordability</b>	 	 	 			
<b>Security of supply</b>			 			
<b>Energy transition</b>			 			
<b>Efficiency &amp; demand response</b>						
<b>Investment signals</b>			 			
<b>Implementation time</b>						

# Long term market design



# Goals for a successful electricity market reform



## Affordability, SoS, sustainability

### 1. Consumers need affordable electricity prices

- Competitive and efficient market with adequate protection against sustained periods of very high prices

### 2. Producers need investment stability

- Competitive and efficient investment framework with adequate protection against sustained periods of very low prices

### 3. We all need sustainable RES

- Investment framework that secures transition to carbon neutrality

## Different targets – different mechanisms?

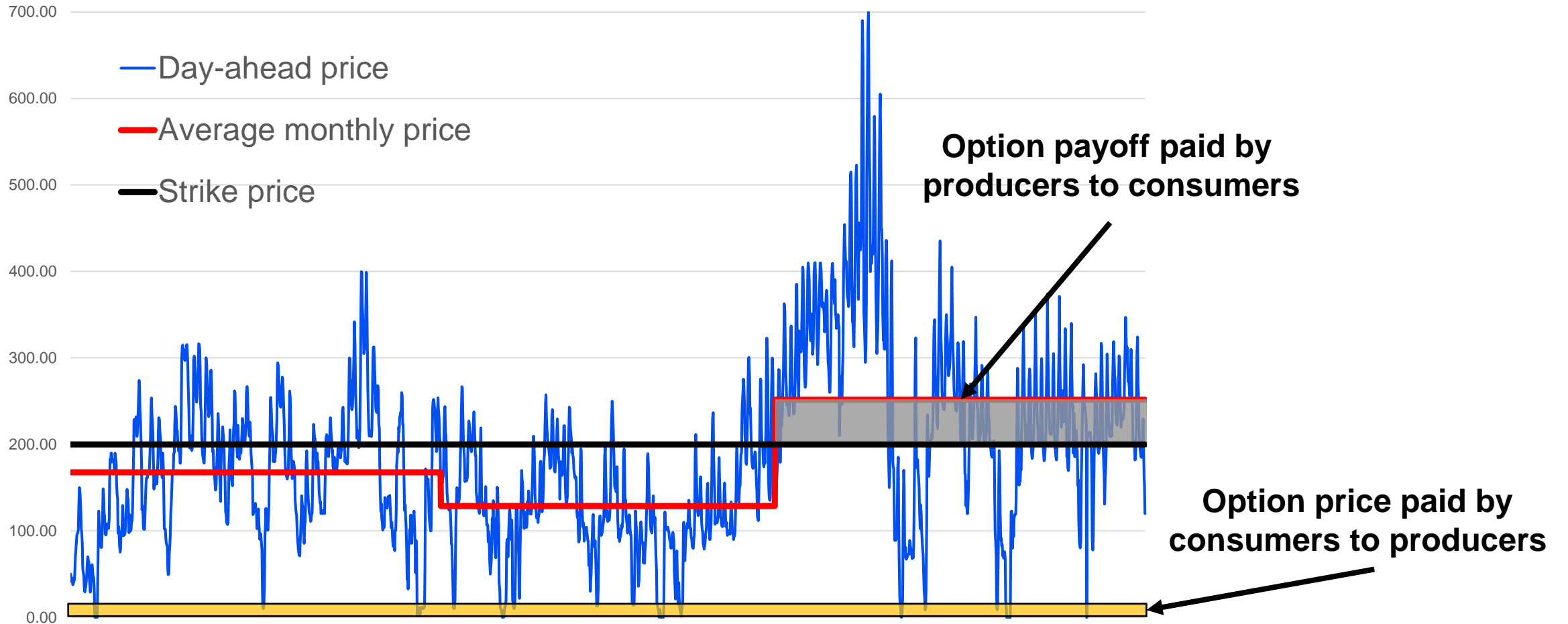
1. Consumers need affordable electricity prices: **Affordability options**
  - **Primary:** protect consumers against sustained high prices
  - **Secondary:** provide stable revenue to producers as protection against low prices
2. Producers need investment stability: **CRMs (e.g. Reliability options)**
  - **Primary:** protect producers against missing money (market prices cannot cover fixed costs)
  - **Secondary:** provide security of supply in times of scarcity
3. We all need sustainable RES: **RES subsidy schemes (e.g. CfDs)**
  - **Primary:** investment certainty for investors producers
  - **Secondary:** affordable prices for consumers

**Significant overlap between instruments!**



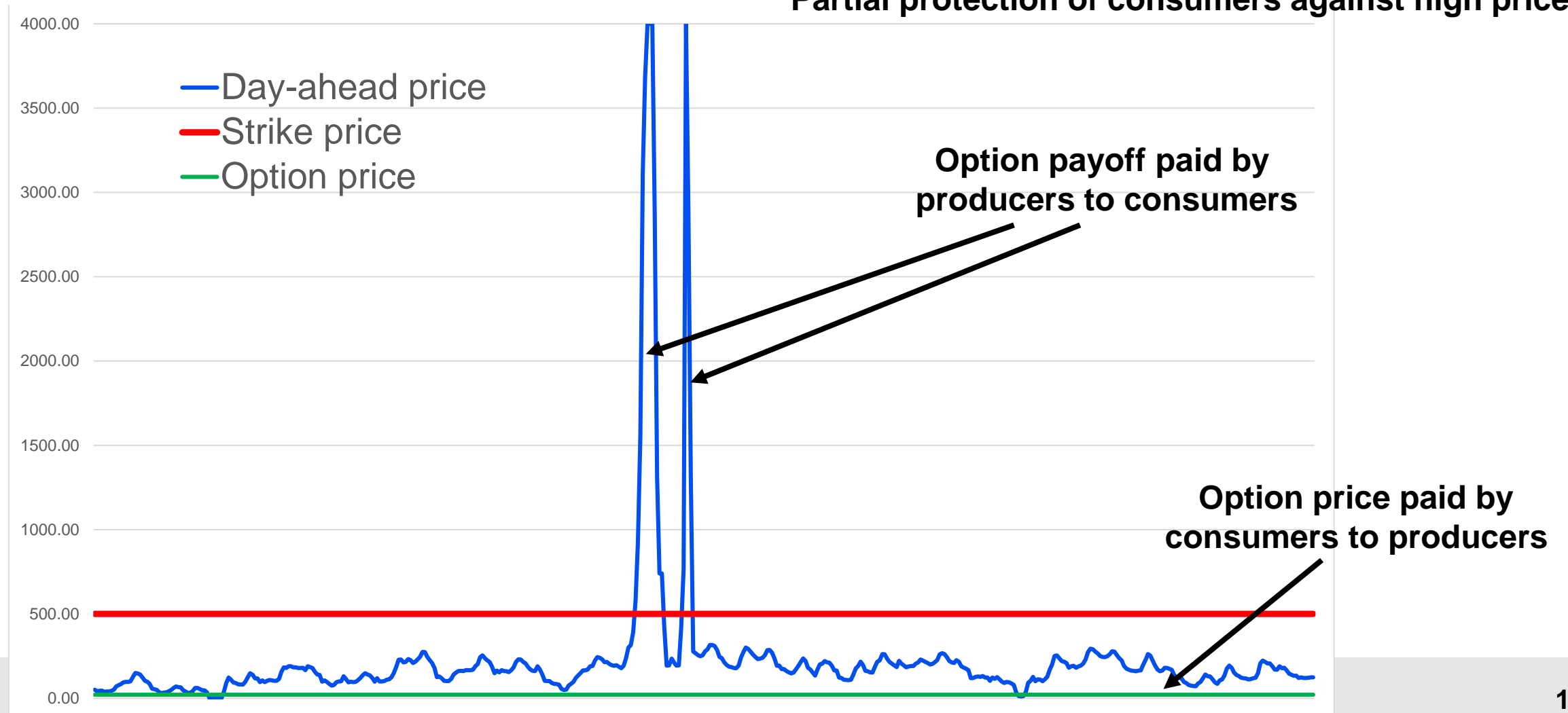
## Affordability options

Protection of consumers against high prices  
Partial protection of producers against low prices



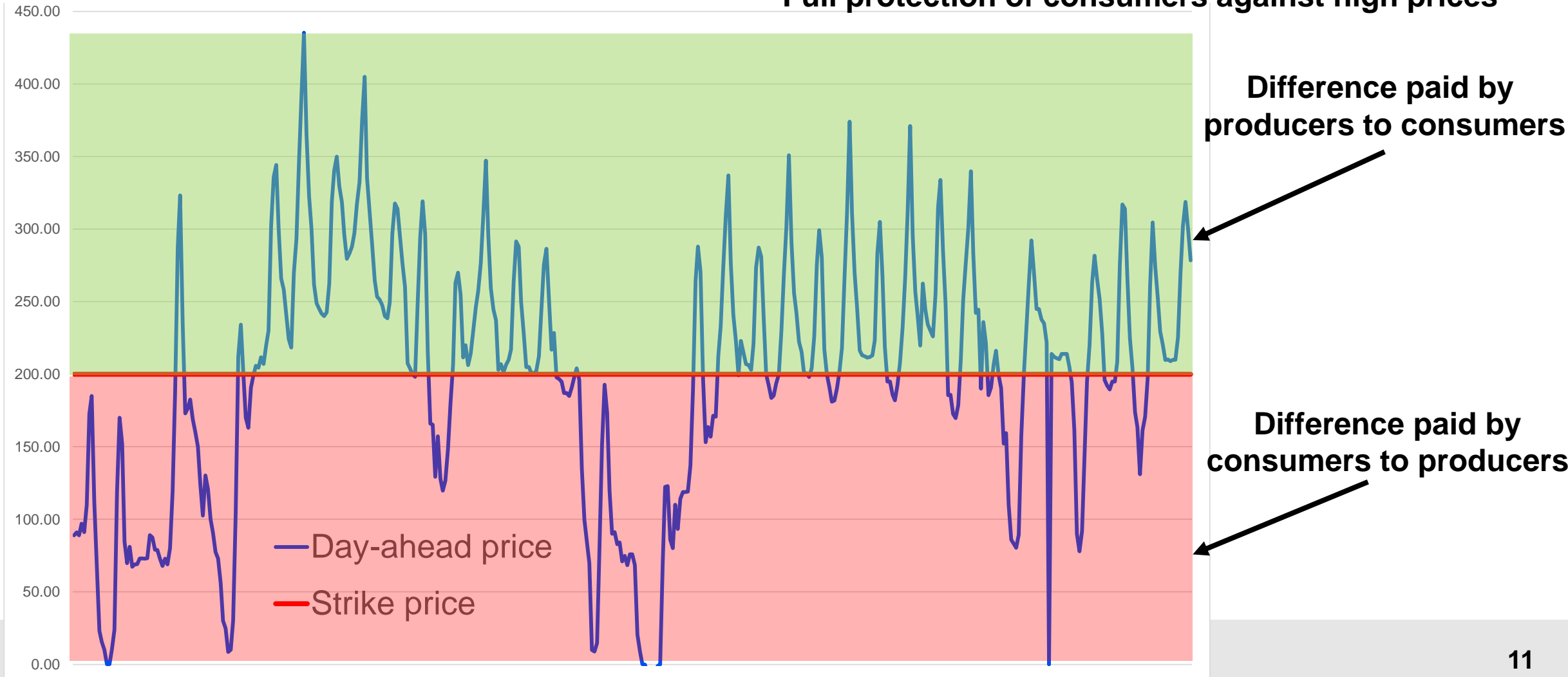
## Reliability options

Protection of producers against low prices  
Partial protection of consumers against high prices

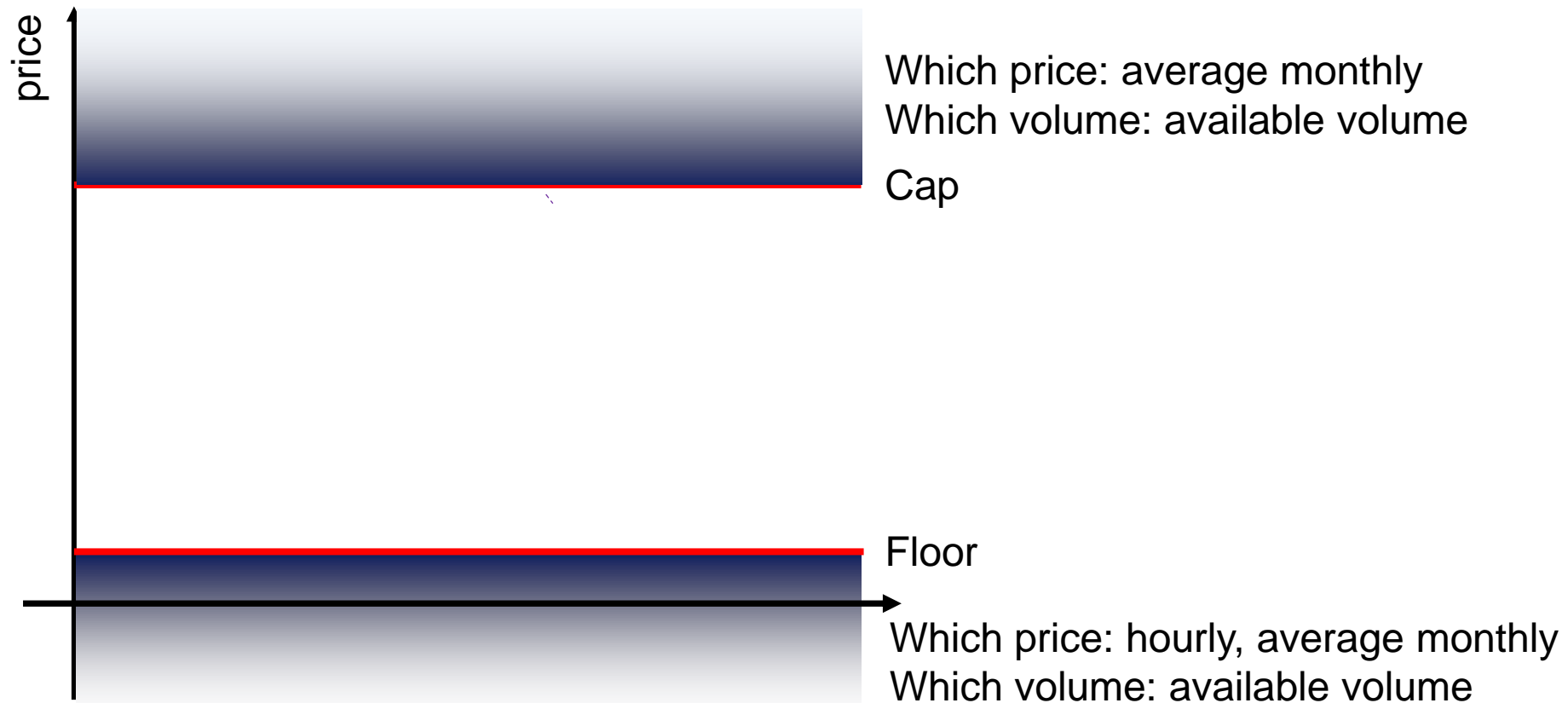


## Contracts for difference

Full protection of producers against low prices  
Full protection of consumers against high prices

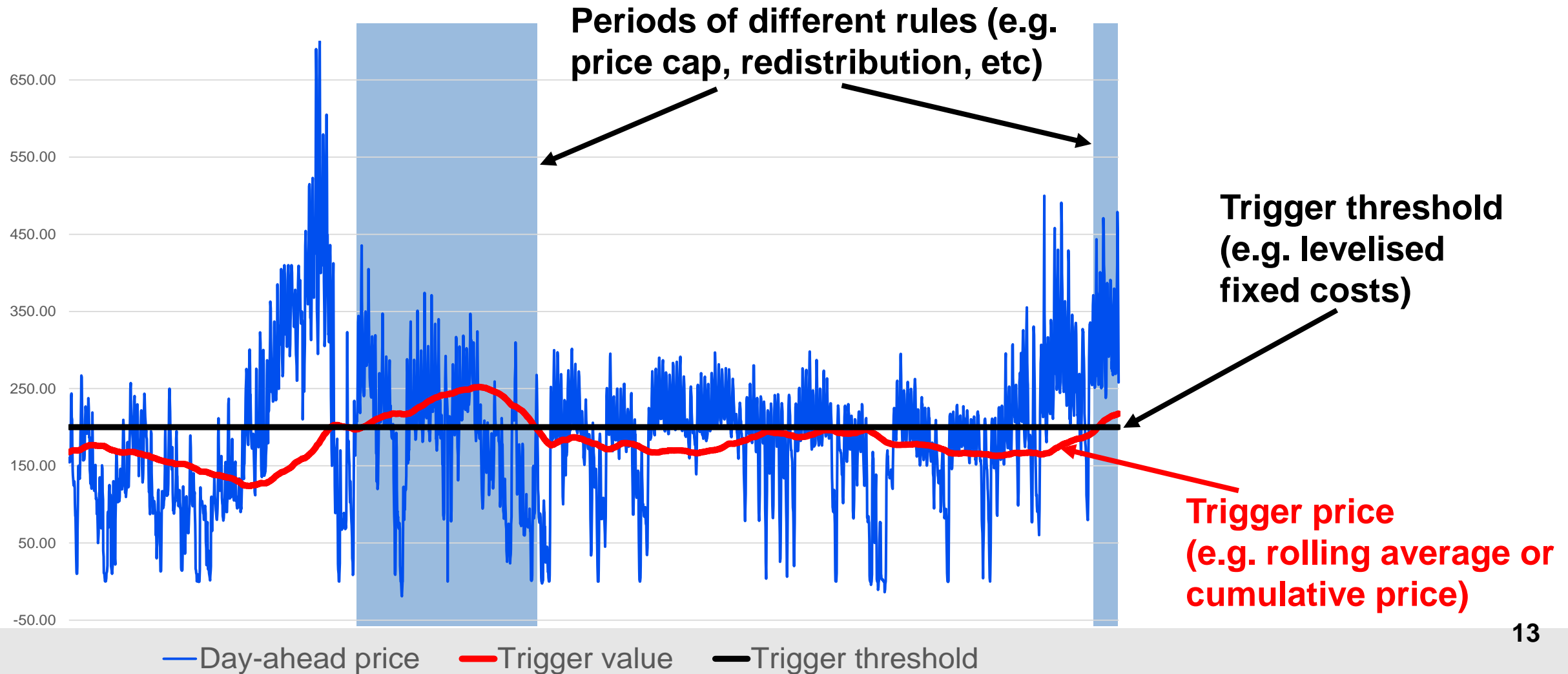


# Cap & Floor (Collar)



# When the intervention starts and stops?

## Temporary relief valve (changing pricing rules at extreme prices)



## Other prerequisites and constraints

- 1. Minimum impact on short term markets (generation dispatch, demand response)**
  - (a) Demand should respond (decrease) at high prices
  - (b) Generation should respond (increase) at high prices
  - (c) Demand should respond (increase) at low prices
  - (d) Generation should respond (decrease) at low prices
- 2. Provide efficient investment signals:** bulk of risk should remain at investors, minimisation of costs and risks
- 3. Manage long-term counterparty risk**