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Taming power prices: the European discussion

ERRA Chairmen Meeting

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1 Power or gas?



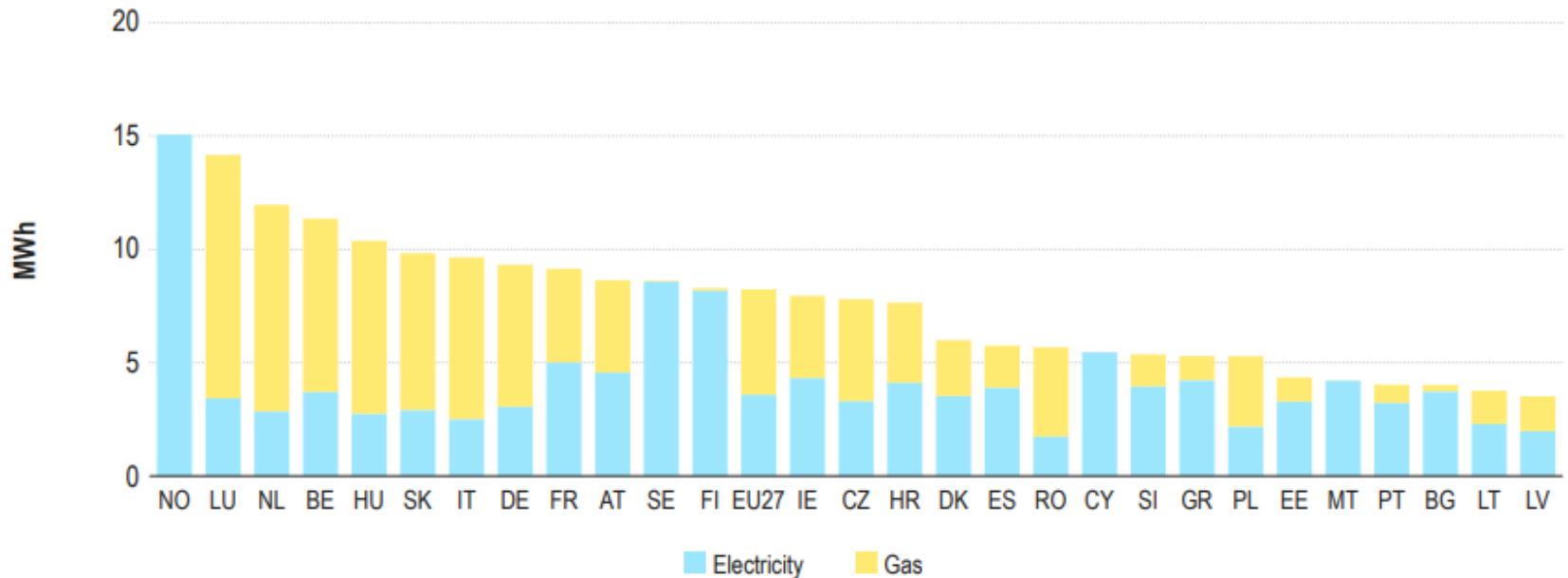
Choose your battle!

It is gas market crisis hence requires gas market solutions, so far:

- Supply:
 - Mandatory storage: at any price?
 - Joint procurement
 - Resourcing: stranded asset risk
- Demand:
 - ?

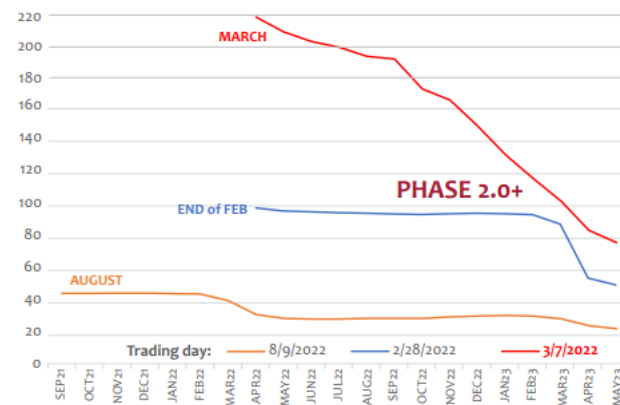
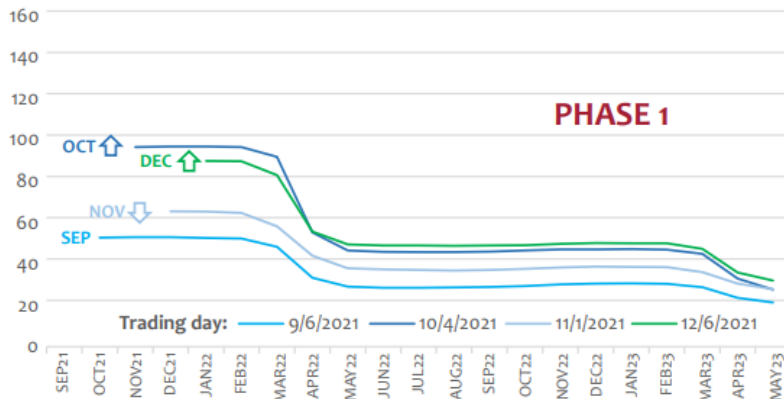
Volume matters

Figure 13: Average electricity and gas consumption across EU Member States and Norway⁷¹



Source: CEER/ACER 2021

Changing expectation on the longevity of gas price crisis

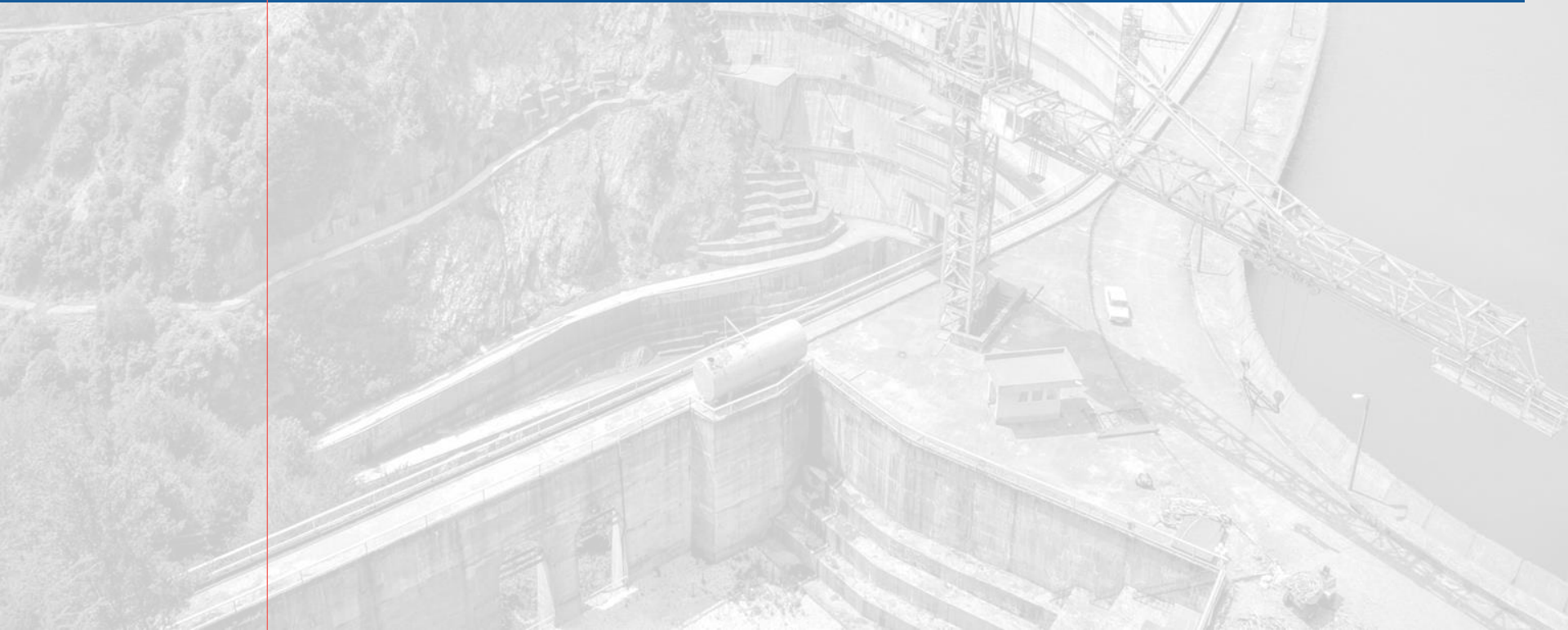



TTF gas forward curves (EUR/MWh)

Source: Battle, et al. 2022

2 Proposed measures for taming power price

Goal: to protect consumers from sustained high prices





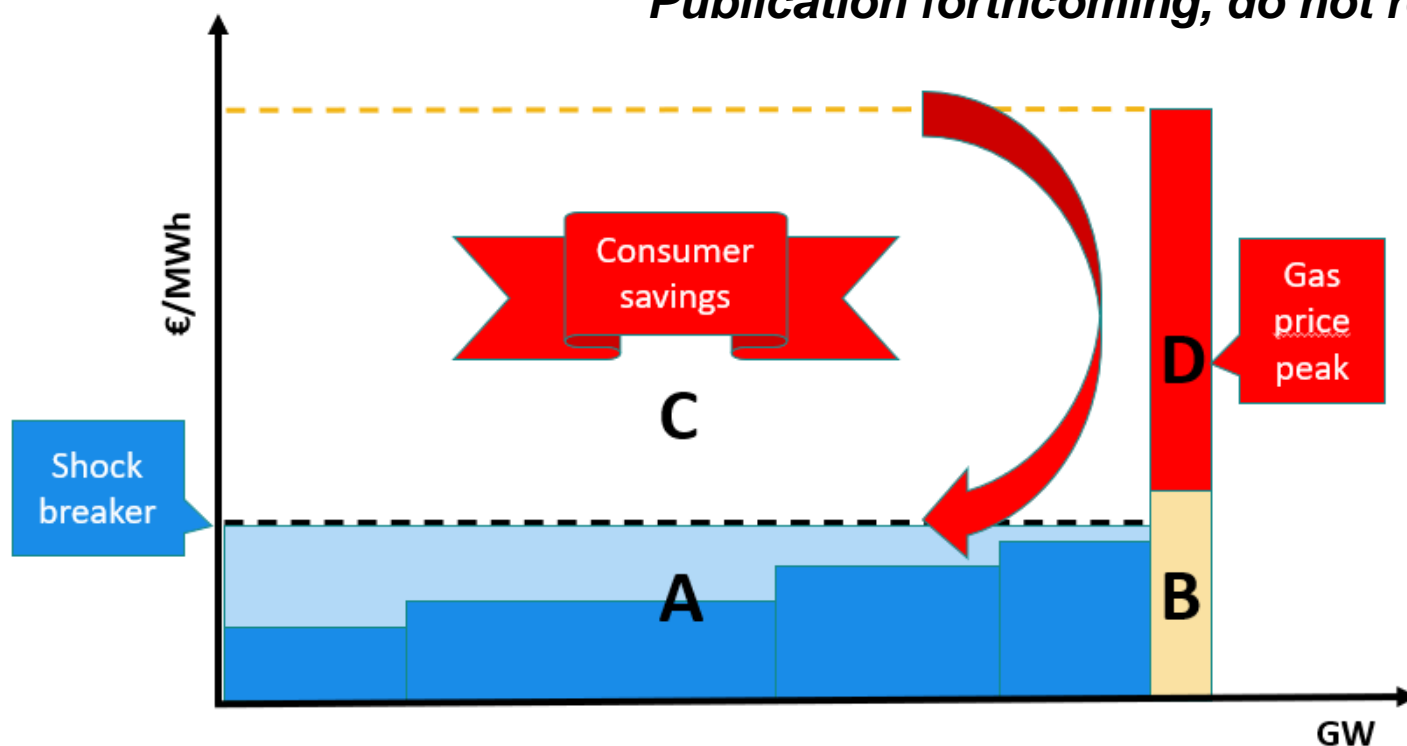
Direct consumer protection measures	Wholesale price mitigation measures	Funding measures
Vouchers (for EE)	<i>(Price cap on gas for power)</i>	<i>(Windfall profit tax)</i>
Levy reduction (swap)	<i>(Blunt power price cap)</i>	Excess ETS revenues
Energy tax/VAT reduction	<i>(Average pricing)</i>	Excess VAT revenues
Long-term supplier hedging	Affordability options	
<i>(Regulated retail energy tariff)</i>	Price shock absorber	

Direct consumer protection measures	Pros	Cons
Vouchers (for EE)	Targeted Keeps the price signal EE is long-term solution	
Levy reduction (swap)	helps electrification	Difficult on already high gas prices Non-targeted
Energy tax/VAT reduction	Keeps the price signal Simple and transparent	Loss to treasury Non-targeted
Long-term supplier hedging	Allocates risk management to suppliers Consumer choice for risk	
(Regulated retail energy tariff)		Deletes price signal: inefficient consumption and investment Retailers going bust Inequitable

Wholesale price mitigation measures	Pros	Cons
(Price cap on gas for power)		Reshuffles the merit order Distorts investment signal Hard to phase-out
(Blunt power price cap)		Some mothballing Distorts investment signal Hard to phase-out
(Average pricing)		Pay-as-bid is not effective nor efficient
Affordability options	Offers price risk protection for consumers Market compatible	Arbitrary definition of protected consumers
Price shock absorber	Automatic phase-out Market compatible EE and DR incentives Keeps inframarginal rent	Preferable at EU level to avert trade distortions

Consumer savings once shock breaker is triggered

Publication forthcoming, do not reproduce!



Source: RAP, 2022

Funding measures	Pros	Cons
(Windfall profit tax)		Retroactivity Easy lost in budgets
Excess ETS revenues	Unbudgeted	
Excess VAT revenues	Unbudgeted	

Conclusion

- „Do not fix what is not broken!”
- Aim at solutions that:
 - Least distortive
 - Adaptive
 - Fair
- „Think in smart combination!”
- „Never forget the goal of zero emissions power sector!”

Resources

- Responses to fossil gas price volatility
- Price shock absorber. RAP Discussion Briefing April 2022 (forthcoming)
- Battle et. al. Power price crisis in the EU: Unveiling current policy responses and proposing balanced regulatory remedy. MIT. Febr. 2022
- Battle et. al. Power price crisis 2.0+. Desperate times call for desperate measures. MIT. March 2022

About RAP

The Regulatory Assistance Project (RAP)® is an independent, non-partisan, non-governmental organization dedicated to accelerating the transition to a clean, reliable, and efficient energy future.

Learn more about our work at raponline.org



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