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HUNGARIAN ENERGY AND PUBLIC UTILITY REGULATORY AUTHORITY

Clean energy, sustainable environment

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Electricity Market Model Restructuring during the energy crisis

Judit Krajcs, dr.

International Electricity Expert

Hungarian Energy and Public Utility Regulatory Authority (MEKH)

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In April, these measures seemed sufficient

13 measures for the consideration of policymakers, **future-proofing** the EU wholesale electricity market design

ACER
European Union Agency for the Cooperation of Energy Regulators

1. Speed up electricity market integration, implementing what is already agreed

2. Improve access to renewable Power Purchase Agreements (PPAs)

3. Improve the efficiency of renewable investment support schemes

4. Stimulate 'market making' to increase liquidity in long-term markets

5. Better integrate forward markets

6. Review (and potentially reduce, if warranted) collateral requirements

7. Preserve the wholesale price signal and remove barriers to demand resources providing flexibility

8. Shield those consumers that need protection the most from price volatility

9. Tackle avoidable supplier bankruptcies, getting the balance right

10. Tackle non-market barriers, ensuring generation and infrastructure is built at pace

11. Consider prudently the need for market interventions in situations of extreme duress; if pursued, consider tackling 'the root causes'

12. Consider public intervention to establish hedging instruments against future price shocks

13. Consider a 'temporary relief valve' for the future when wholesale prices rise unusually rapidly to high levels

„The current energy crisis is in essence a gas price shock, which also impacts electricity prices." „The current wholesale electricity market design ensures efficient and secure electricity supply. Do not mend what is not broken."

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Already under further revision by EC

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The present

Decision expected to be passed by the Council (TTE) TODAY (30 September)!

EUROPEAN COMMISSION

Brussels, 14.9.2022
COM(2022) 473 final

2022/0289 (NLE)

Proposal for a

COUNCIL REGULATION

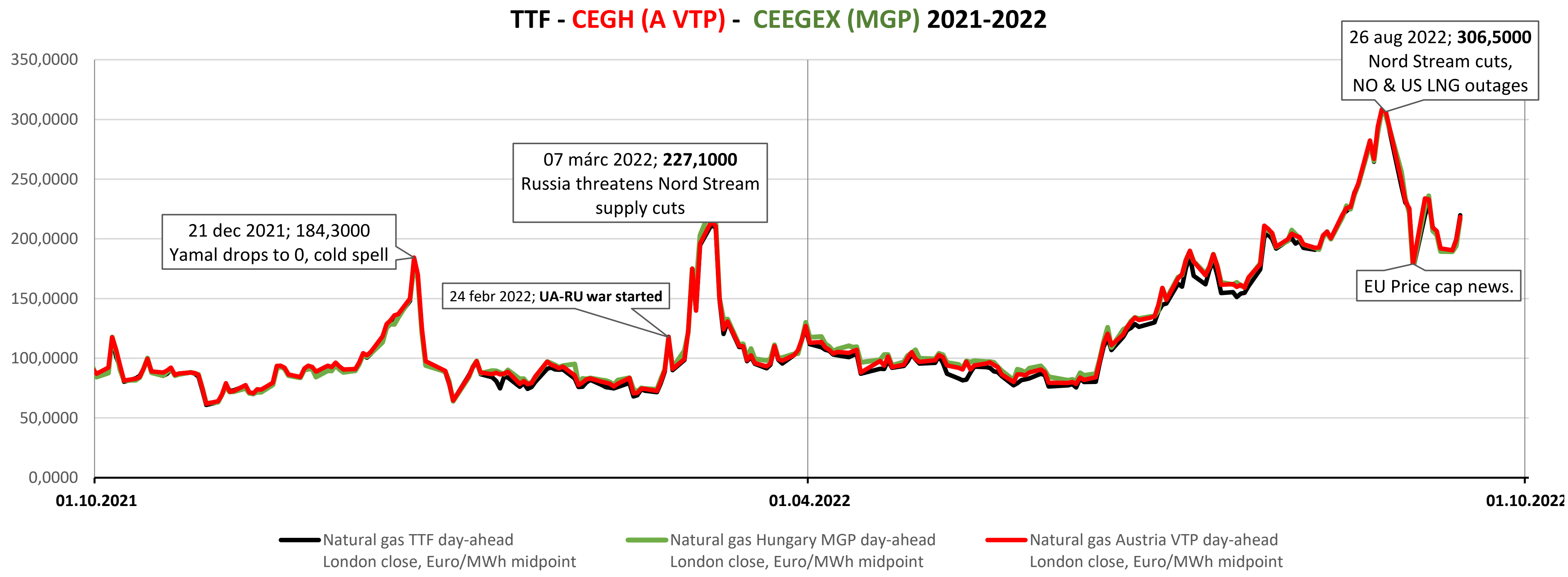
on an emergency intervention to address high energy prices

Latest emergency interventions proposed by the Commission:

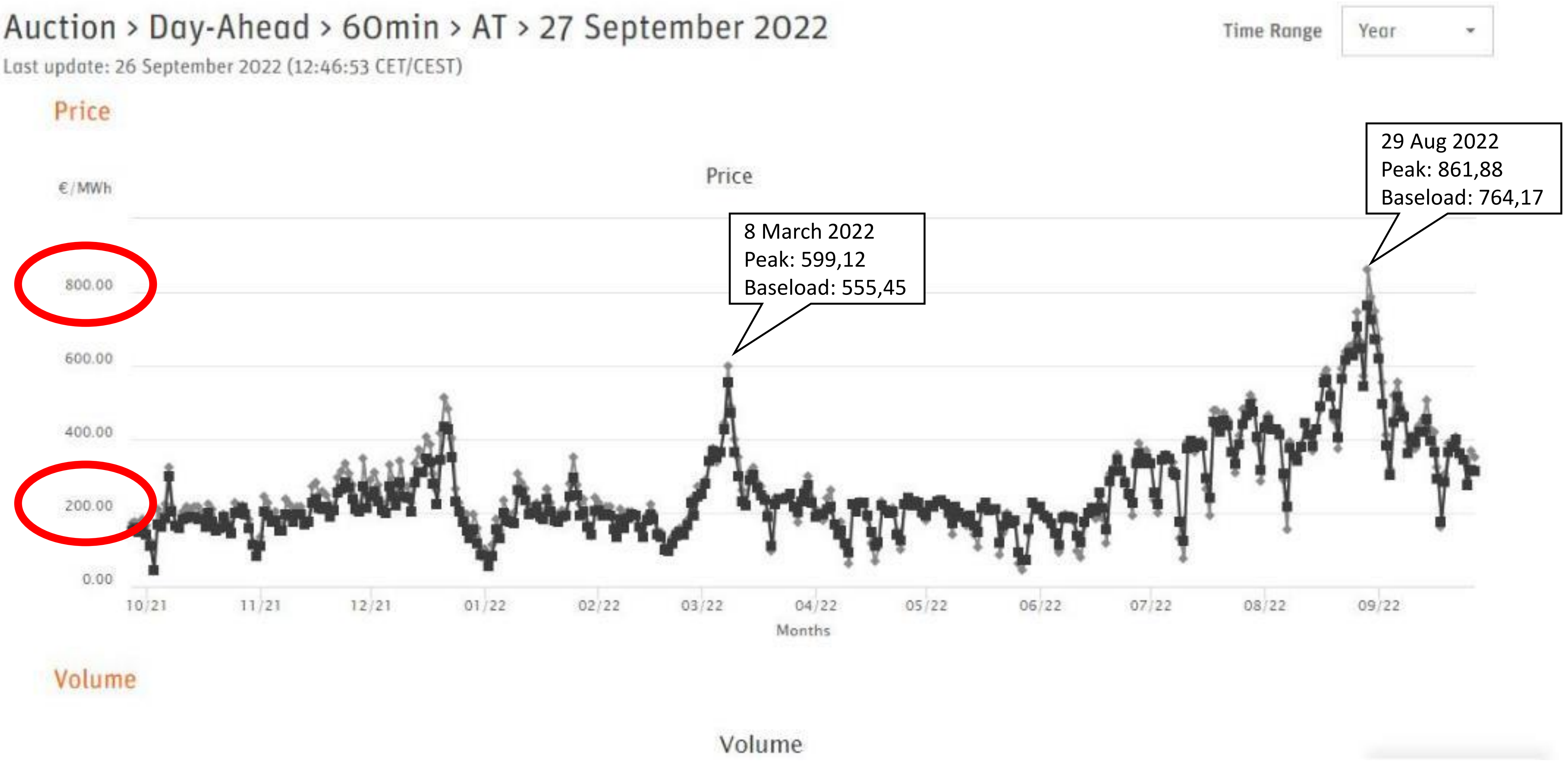
- **Capping the revenues of electricity producers** that face low production costs (capping the revenues of inframarginal electricity producers with low costs of production)
- Introduction of a **mandatory temporary solidarity contribution (=tax)** from Surplus profits generated from activities in the oil, gas, coal and refinery sector
- Measures for a **coordinated electricity demand reduction** across the EU

\+ **Immediate suspension of the automatic increase of the maximum clearing price threshold on the electricity market**
\+ Measures that would help to **solve the issue of decreased liquidity** (with ESMA)
\+ A possible **price cap on gas?**

What happened in between? (Natural gas)



What happened in between? (Electricity)



Source: epexspot.com

Problem identification

- The present crisis is fundamentally a (dual) resource scarcity issue: the lack of sufficient gas (and power production) upset the usual balance between demand and supply, which resulted in price shock both in gas and electricity markets

- The current market rules were not prepared to handle foul play of this magnitude

- The suggested remedies get more and more severe as the winter outlooks turn more and more grim:
  - REPower EU Plan
  - Save gas for a safe winter
  - Gas storage and gas demand reduction regulations
  - (draft) Council Regulation on an emergency intervention to address high energy prices

Dilemma of the regulators: How to handle the crisis without unnecessarily hurting the market? Do we need to change the market design?

Interventions considered so far

Gas market intervention

Electricity market intervention

ETS

Financing

Suspension of derivative transactions on forward markets

Electricity wholesale price cap

Compensation mechanism to increase LNG import

Decrease of CO2 quota prices

Gas price subsidy for the power plants

Price cap on gas exchanges

Decrease of the inframarginal profit of certain types of PPs

Decrease of CO2 expenses for gas PPs

Market segmentation

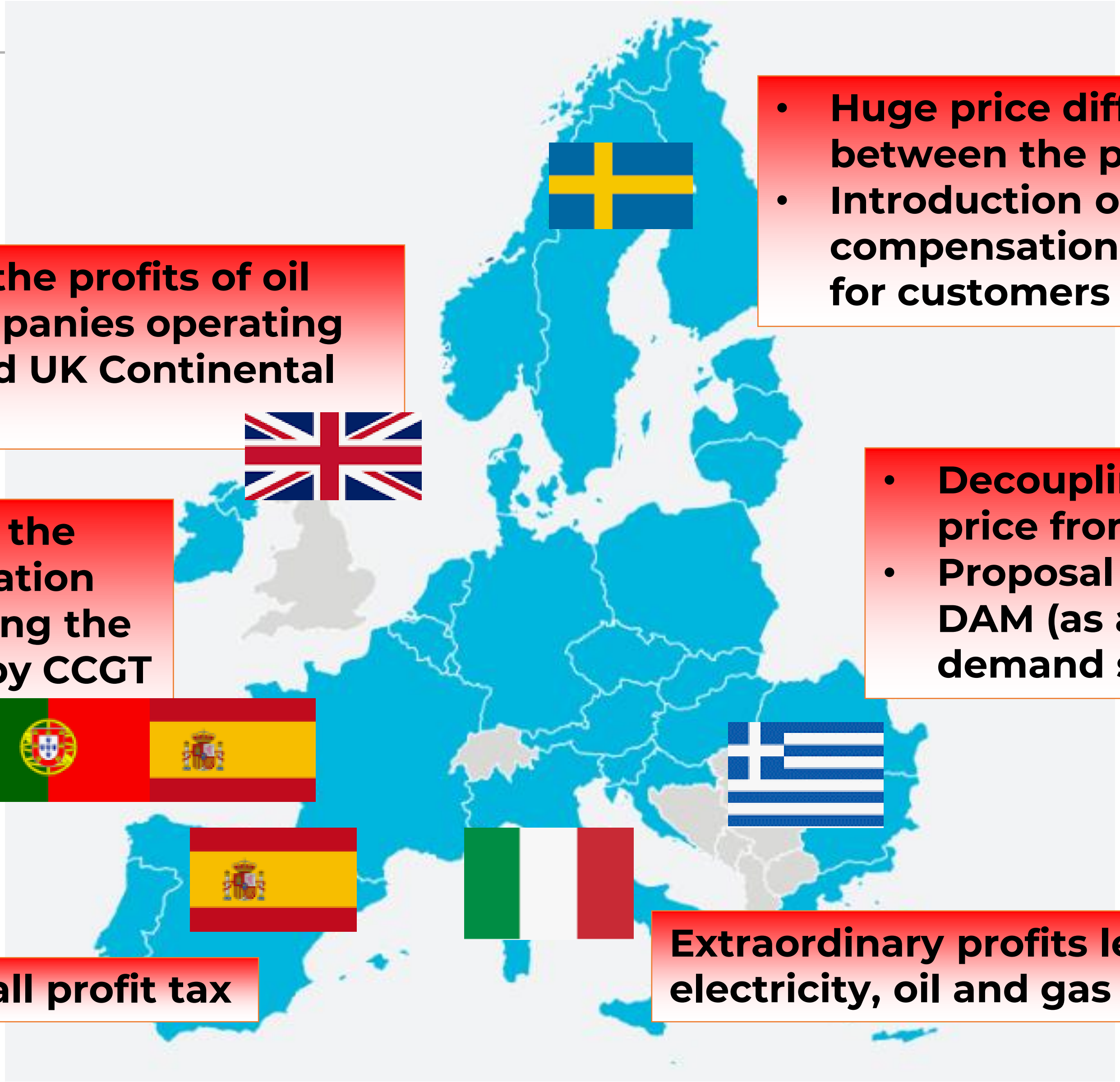
Decrease collateral requirements to solve decreased liquidity

Entry tariff on pipeline imports

First phase: helping consumers

- Direct assistance to consumers (compensation vouchers, social policy)
- Reduction in taxes / levies
- Deferral of bill payments
- Reduction / deferral of system charges in consumer bills
- Extension of regulated tariffs to certain groups (vulnerable consuers, SMEs)
- Transparency / information measures
- State aid / other measures to support business

Second phase: market interventions (major examples)



- Huge price differences between the price zones
- Introduction of a compensation framework for customers

25% levy on the profits of oil and gas companies operating in the UK and UK Continental Shelf.

- Decoupling the electricity price from the clearing price
- Proposal for a two-stage DAM (as available and on demand stages)

Mechanism to decouple the cost of electricity generation from gas prices by limiting the price of gas consumed by CCGT and CHP generators

Windfall profit tax

Extraordinary profits levy on certain electricity, oil and gas companies

Hungary

Market revenue cap for electricity producers having low production costs (decreasing their inframarginal revenues): From a technical aspect, this is already widely applied in Hungary: the electricity of RES (in KÁT) is taken over at a fixed price and the revenue that the NPP at Paks generates is channelled to alleviate the burdens of the Universal Service Provider. Hungary does not expect new quick wins from this intervention, however, MEKH does not deem them harmful either.

Introduction of a **solidarity contribution** from fossil fuel companies: In Hungary, in 2022 there have already been several types of windfall profit taxes introduced, affecting crude oil production, renewable energy, mining - mineral raw materials, geothermal energy, energy suppliers. It should be examined whether these rules match or can be adjusted to the Commission Regulation proposal.

Electricity demand reduction: Unfortunately, the smart meter roll-out in Hungary is relatively low (between 10-15%) and thus, demand response and demand reduction (especially peak reduction) are difficult to measure and as a result, difficult, in some cases even impossible, to implement or incentivise. Thus these proposals should be rather voluntary than obligatory.

Reduction of collateral requirements to increase liquidity of traders: This measure was proposed by Hungary built on a initiative by EFET to decrease the exposure of the traders and grant relief to the much-strained power wholesale markets.

Conclusions, next steps

- The majority of the newly introduced, considered and proposed measures is considered a **temporary** emergency intervention
- Structural redesigns of the EU electricity market model needs further analysis, more time for the impact assessment, and definitely enough lead time for the implementation
- Any reform should serve also the tackling of high energy prices due to current crisis, but also the challenges to achieve a net zero carbon neutral EU by 2050
- European Commission is currently assessing options for the reform of electricity market design, including an impact assessment, the plan is to be ready by summer 2023, nevertheless political pressure might speed up the process

Update

On the gas price cap:

- The European Commission is expected to come up with its final proposal for the gas price cap next Tuesday, so that the heads of state and government can decide on it next Friday in Prague.
- There are still three main proposals on the table: price cap for
  - only Russian pipeline gas
  - stock market deals
  - gas for power generation

You may add your LOGO here

THANK YOU
FOR YOUR ATTENTION!

Judit Krajcs, dr.
krajcsj@mekh.hu