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European Commission
Directorate-General for Competition
State Aid Registry
1049 Brussels
Belgium

EPEX SPOT response to public consultation on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG)

Paris, 23 July 2021

Dear Madam, Dear Sir,

EPEX SPOT welcomes the possibility to participate in the public consultation on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG). As a Power Exchange that operates physical short-term electricity markets, EPEX SPOT has always strived to achieve a pan-European power market and act as a facilitator of the energy transition. Well-functioning and competitive markets are key to achieve the ambitious decarbonisation targets of the European Green Deal and of the new agenda Fit for 55. To avoid any negative effects on the functioning of the European internal energy market and on competition, EPEX SPOT supports the general principle of prohibition of state aid, as outlined in the Treaty on the Functioning of the European Union (Art. 107 (1)). In the exceptional cases where state aid is granted, support mechanisms shall be:

- Justified by a demonstrated residual market failure not addressed otherwise,
- As least distortive as possible,
- Clearly limited in time,
- Market-based, and
- Harmonised at European level.

Overall, EPEX SPOT welcomes the provisions of the draft guidelines aiming at securing the well-functioning of the energy market. EPEX SPOT especially welcomes the key reminder that aid can only be justified in cases where a residual market failure, not addressed otherwise e.g. through market-based mechanisms, is clearly identified. Yet, we see the need for several additional provisions to minimize distortions of competition and trade. In the following, EPEX SPOT provides feedback on the proposed guidelines with a focus on I) renewable energies, II) capacity mechanisms, and III) further remarks.

I) Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy (chapter 4.1): Full market integration of renewables is necessary and feasible

EPEX SPOT proposes the following amendments to chapter 4.1 of the draft guidelines:

- Include the principle of full market integration of renewable energies
- Add a legal requirement to avoid negative impacts on the electricity markets
- Introduce a clear and reliable time limit for any support
- Strengthen justifications for operating aid (nr. 103 of the draft guidelines)
- Apply requirement of public consultation (nr. 85) to all areas without exemptions for investments in non-fossil-fuel based energy generation or industrial production as stated in nr. 86
- Ensure that a residual market failure not addressed otherwise is clearly established by Member States in order to prove the necessity and appropriateness of the aid, as required under chapter 3.2, and not merely presumed by the Commission (nr. 79)
- Require cross-border openness for decarbonisation measures, to minimize distortive effects of such measures and ensure a level-playing field across the EU (nr. 82, footnote 53)

Reasoning by EPEX SPOT:

EPEX SPOT welcomes the market-based principles for the granting of state aid for renewable energies as outlined in the revised draft guidelines, such as the granting of aid through competitive bidding processes (nr. 89) as well as the principle of no aid for production in any periods in which the market value of that production is negative (nr. 104).

However, EPEX SPOT advocates for a full market integration of renewables as soon as possible. Currently implemented support schemes are not suitable in the long-term. They distort the energy market and hamper an efficient grid integration of renewables. Furthermore, they favour lock-in effects that increase the period for which renewable energy sources (RES) would receive regulated payments rather than promoting a gradual phase-out of subsidies. As a result, they contribute to raising the costs of the energy transition.

For renewables, aid covering investment costs is normally sufficient to incentivise a project. Operating aid removes incentives for producers to react to market price signals or to maximise the value of their production. Nr. 103 of the draft guidelines states that “*Aid which covers costs mostly linked to operation rather than investment should only be used where the Member State clearly demonstrates that this results in more environmentally friendly operating decisions.*” This justification needs to be strengthened to limit market distortions due to operating aid.

A subsidy-free future for renewable energy is both necessary and feasible. Considerable amounts of renewables are already being successfully integrated into the European power market today thanks to

significant investments such as the one made by EPEX SPOT to innovate in electricity markets and make them fit for the energy transition. EPEX SPOT contributes to market integration of renewables with innovative trading systems, trading close to delivery and products with finer granularities. The spot markets are the physical markets enabling to fundamentally balance production and consumption (day-ahead) and correct forecast errors until delivery (intraday). Even though renewable production forecasts have significantly improved over the last years, intermittent renewable production still cannot be predicted down to the kWh produced. For renewables, the intraday market is therefore most relevant because trading is possible until close to delivery and generation ramps can be handled with finer granularity products, such as 15- and 30-minute products.

Furthermore, with increasing renewables penetration, trading activity shifts closer to real-time when forecasts are most precise. In some European markets, trading until delivery has been made possible as a result of market design choices and with the support of Transmission System Operators (TSOs). In those markets, during the last hour before delivery in the intraday market, where no cross-zonal capacity can be allocated and trading takes place within bidding zones, competitive Power Exchanges can decide to organise and offer trading platform services. As an example, EPEX SPOT has facilitated trading until 5 minutes before delivery in Belgium and The Netherlands since 2015. EPEX SPOT has also been offering this possibility in Germany since 2017 (within one control area), and since 2018 in France and Austria. In contrast, in the Nordic countries, local trading, in the last hour and up to delivery is not yet possible except in Finland.

Renewables market integration can be further facilitated with the digitalisation of the energy sector. Market participants have been able to connect applications through an open-API (Application Programming Interface) to automate and optimize marketing of their resources. Automated and algorithmic trading leads to a rapidly growing number of orders and trades (the number of orders per day in our M7 intraday trading system has been multiplied by 7 in 3 years and is now reaching 3.2 million orders per day). With algorithmic trading, these orders are not submitted via our manual trading system Comtrader, but via an API. In early 2021 EPEX SPOT counts more than 280 API connections. In January 2021, the share of volumes traded by applications connected to M7 API was 80% for 15-minute contract and 48% for 60-minute contracts. EPEX SPOT continuously adapted its trading systems to welcome this high load and to keep the round-trip time (reaction time of the system to input) as low as possible. Thereby, we ensure fast, stable and secure trading with our robust M7 intraday trading system and are prepared to welcome growing shares of renewables in the trading system.

Under the future market design, renewables should fully contribute and react to the price signal. A lack of RES subsidy schemes does not necessarily entail a lack of support for renewables. The key to fully integrate renewable energy sources is providing market players with incentives to bid at their real marginal or opportunity costs in the power derivative and spot power market, meaning dispatch based on the merit order, and at the same time allowing them to recover their investment costs by reaping

producers' rent or other revenue streams. Then, even with a high share of renewables, the market price signal will remain undistorted. In particular, the price signal is not biased downwards, which is essential to stimulate investment in generation capacity. Through efficient competition, financing costs and thus levelised costs of electricity will decrease.

Renewables are furthermore impacted by the broader framework: Regulatory decisions such as a tighter CO₂ emissions cap at EU level for example could increase the price of CO₂, which then would in turn increase the electricity price. This reduces the need of additional subsidies for RES, who can (then) recover their full costs on the market. Revenues can be generated from different markets, such as coming from the remuneration of the commodity, i.e. the Power Exchange price for every MWh produced, as well as from the remuneration for the quality of the electricity (guarantee of origin), other system services (balancing, congestion management and ancillary services) as well as from Power Purchase Agreements (PPAs). For this, a well working energy market with stable and liquid bidding zones and a robust emission trading system price are needed.

Looking ahead, in a system dominated by renewables supply, both the Day-Ahead and Intraday markets will continue to deliver very important and reliable price signals. There is the potential that the importance of the Intraday market will grow further as trading close to delivery could become more relevant. The Day-Ahead market will nonetheless remain fully relevant, even if a higher share of renewables in the power system tend to decrease the spot power market price as the marginal costs of renewables are very low. The Day-Ahead auctions incorporate all the available information at a certain moment in time, and not just information about the generation costs. The price on the Day-Ahead market will also reflect the value attributed to electricity by the demand-side. In times of scarcity, it is the value that consumers attribute to their consumption that will set the price. These price peaks allow renewable energies to achieve a producer rent and cover their investment costs. Furthermore, different technologies like demand-side solutions, storage mechanisms and batteries will contribute to an efficient spot price formation even without a large part of traditional production in the system.

By fully integration of renewables into the market, the Green Deal and net-zero emissions targets can be reached in the most effective and cost-efficient way and ultimately benefitting the end-consumer.

II) Aid for the security of electricity supply (chapter 4.8): Co-existence of the energy-only market and market-based capacity mechanisms is reasonable

EPEX SPOT proposes the following amendments to chapter 4.8 of the draft guidelines:

- Specify equal treatment of demand-side resources and distributed flexibility assets to generation in the competitive bidding process

Reasoning by EPEX SPOT:

The European Commission rightfully specifies that member states should primarily consider alternative and market-based ways of achieving security of electricity supply, such as “better integrating variable generation, incentivising and integrating demand response and storage, enabling efficient price signals, removing barriers to cross-border trade” (nr. 301). There are however EU member states where the further enhancement of the Energy Only Market proves inapplicable or insufficient to counter acute challenges to the security of supply. In these cases, capacity mechanisms can be a reasonable complement of the Energy Only Market. EPEX SPOT also welcomes that the draft guidelines refer to the provisions on capacity mechanisms of the Electricity Regulation 2019/943 to make sure that the guidelines are clear and in line with other regulations, in particular with the Clean Energy Package.

The three models Energy Only, capacity mechanism and strategic reserve could be suitable for EU countries. In theory, the Energy Only Market is the preferred solution to address the flexibility challenge, with well-functioning short term and balancing markets as a part of it. Market-based reference price signals shall be the basis of decision-making for market participants. Yet, the missing money problem exacerbated by subsidised renewable energies means that price signals could be challenged to guide investments towards the optimal mix. In practice, all countries in the EU have already adopted some kind of capacity mechanism. Moreover, it could appear as riskier in a market with low consumer ability to react to prices. A strategic reserve aims at keeping existing backup plants rather than new installations and leads to a slippery slope where more and more resources need to enter the strategic reserve in order to stay as capacity resources. A capacity mechanism should therefore be preferred over a strategic reserve.

In general, a capacity mechanism should be as technology neutral as possible. The participation of renewable energies should be taken into account based on their capacity credit. This is, for example, the case in the French capacity mechanism. Also demand-side resources and distributed flexibility assets should be treated equally to generation in the competitive bidding process. This should be further specified in the revised guidelines (chapter 4.8). Enhanced demand-side flexibility is key to guarantee an electricity system that is cost-effective and at the same time guarantees security of supply.

EPEX SPOT supports the opening of capacity mechanisms to cross-border participation, as stated in nr. 305 of the draft guidelines, to avoid market distortions, incentivise investments in interconnection capacities and reduce the cost of European security of supply in the long run.

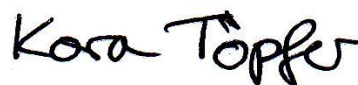
III) Further remarks

- **Ex post evaluation (chapter 5): Ex post evaluations shall be done systematically for all aid measures** as they are a further means to limit market distortions of aid. The exemptions listed in nr. 400 where ex post evaluations will not be required shall therefore be deleted or at least further limited.

Kind regards,



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The European Power Exchange EPEX SPOT SE and its affiliates operate physical short-term electricity markets in 13 countries: in Central Western Europe, Switzerland, the United Kingdom, the Nordics and in Poland. As part of EEX Group, a group of companies serving international commodity markets, EPEX SPOT is committed to the creation of a pan-European power market. Over 300 members trade electricity on EPEX SPOT. 49% of its equity is held by HGRT, a holding of transmission system operators. For more information, please visit www.epexspot.com.