

Retailers and wholesalers need energy price stability and supply reliability

Reform of EU's Electricity Market design

Key points

- One of the main aims of the reform of the electricity market should be to **ensure energy price stability and supply reliability**.
- Future reforms should also **consider the users**, particularly, the contribution the retail and wholesale sector can make as a big energy user.
- It is important to **strengthen Power purchase agreements** – call for more flexibility, e.g. the **possibility to enter voluntary fixed-price contracts** while guaranteeing competitive pricing.
- Our sector call for Contracts for difference (**CfDs**) to **always be voluntary**.
- The revenue cap on inframarginal generators is a **de facto tax on renewables** - greatly hampering investments in new renewable energy production capacity.

Retail and wholesale provide an essential service to customers every day, all over Europe. We are heavily dependent on energy because our systems need to remain running. For instance, a shop's cooling and heating cannot be shut down when stores are closed. Because of our size as a sector, we are a big energy user. Our stores and warehouses consume 220-240TWh per year, much more than most energy- or electro-intensive sectors. This energy dependence, combined with our low margins (1-3% net in foods), makes us highly vulnerable to skyrocketing energy prices. To curb inflation, we urgently need a more stable European energy market.

The ongoing energy crisis calls for a European and future-proof electricity market. This is also needed to reach the objectives of the European decarbonisation agenda – to reduce the European carbon footprint. Decarbonisation by 2050 requires increasing electricity use and massive investments in power generation, storage, transmission and distribution. These investments are indispensable to strengthening and securing a self-sufficient European electricity market. A comprehensive impact assessment should precede this investment and reform programme to ensure the correct fit for each member state and its evolving energy mix.

The reform of the electricity market must ensure price stability and supply reliability. It would be more beneficial for our sector if the Commission strengthen the opportunities to enter voluntary fixed-price contracts while guaranteeing competitive pricing. This will reduce the consumers' vulnerability to electricity price fluctuations without destroying the incentive for developing renewable energy.

Future reforms should also consider the users and, particularly, the contribution the retail and wholesale sector can make

Being a large user of electricity and potentially green energy, the retail and wholesale sector has the potential to contribute to the generation and storage of energy. Efforts made at EU and national levels

to reform electricity markets should also evaluate those relevant users outside of manufacturing when examining future supply and demand.

In a study carried out by EuroCommerce with McKinsey, the switch to renewable energy was identified as an enabler for the sector to have net zero stores and warehouses. However, this would require companies to invest up to €50 billion in stores and up to €140 billion in warehouses between now and 2030.

After years of going from crisis to crisis, these massive investments have become challenging to fund in our low-margin industry. Finding external funding is also difficult because banks deem the return on investment too low. However, with guidance, for example, on how and when we can develop public-private partnerships or the correct pricing incentives (e.g. input tariffs that make the transfer of excess energy more attractive), we can become a sizeable partner in the growth of green energy. With nearly 500 million sqm of real estate across the EU, with a geographical spread following population density, we can be an attractive strategic partner in the future of renewable energy.

Specific remarks

Urgent need for a stable energy supply

Our sector needs a more stable energy supply. The energy crisis brought uncertainty, price spikes, and unstable and constrained electricity supplies. The energy transition is urgent and requires massive investment. Investors in infrastructure, however, tend to be strongly risk-averse. The only way to mobilise enough investment capital in a timely manner is to reduce price volatility and uncertainty. This means incentivising investment in power generation, increasing flexibility in the market for renewable energy, and securing a sustainable and integrated European electricity market.

Strengthen investment in renewable energy

More investments in renewable energy use and production will be necessary to resist the impact of unstable prices and provide visibility to consumers and businesses. Therefore, there is a need for massive investments in renewable and low-carbon generation, storage, import infrastructure, and demand response. Further, there is an urgent need to store renewable energy, otherwise, if we have to dismiss all fossil, which is ideal to store, energy sources soon, the market will be even more volatile depending on sun, wind and water availability only.

Furthermore, appropriate market incentives could support additional flexibility on the demand and supply side. Demand-side flexibility can be encouraged by requiring national System Operators to adopt a more 'flexible' approach to procuring demand-side resources (e.g., notice time for and duration of demand reduction and the number of demands drops per week). This will enable more sectors to contribute, making the market more flexible and open.

Increasing grid costs

To ensure a more stable market there is a need to massively invest in infrastructures, including grids, interconnectors and storage. This is essential to secure the security of supply. The permanently and rapidly increasing grid cost covers a large part of the overall costs for both small and bigger operators such as Retail and Wholesalers. As an effect, even if the energy prices stagnate, the electricity costs for retailers and wholesalers are still rising.

Our sector would welcome the Commission to assess the challenges that the development of distributed and small-scale electricity production brings on the financing of the grid and on the overall costs in the end for businesses.

Strengthen Power purchase agreement – call for more flexibility

We support strengthening the market for Power Purchase Agreements (PPA), including strengthening the accessibility of PPAs for smaller consumers. This can be done in a market conform manner – for example, by exploring ways demand can be pooled. By pooling demand from multiple smaller consumers into one contract, PPA contracts could also be offered to SMEs.

Strengthening the framework for entering into fixed-price contracts (voluntary PPA) is equally essential. This can, for example, be done by creating a digital marketplace for PPA contracts, allowing “pooling,” and looking at the length of binding periods. The good thing about promoting the market for voluntary PPA contracts is that it can be done without destroying the incentive to expand renewable energy. This is crucial since more wind and solar energy are needed to lower prices.

Price for PPAs in a long-term agreement between a renewable developer and a consumer for the purchase of energy, where currently, developers are incentivised to offer PPAs as they provide a stable revenue stream. Accordingly, there is no need for public obligations requiring specific amounts of produced electricity to be traded through PPAs. There is a need for a market approach. Such public requirements could distort the market and result in developers requiring higher payments for their offered PPAs.

Duration of the contract – ask for long-term contracts to secure a more stable market. The providers of fixed-price contracts would like to have the opportunity to “contractually bind” their customers for a longer time. This is essential for both parties, as the binding period is currently only six months, disincentivising such contracts for electricity providers. Having the option of longer binding periods will be beneficial.

Call for Contracts for difference to always be voluntary

We acknowledge that contracts for differences (CfDs) can be useful when the necessary investments are not being made on a market basis. CfDs can provide certainty for investors as they guarantee a fixed price independent of developments in the on-the-spot markets.

As already used in some member states, Contracts for Difference (CfDs) should be further assessed as they could serve an important role in ensuring sufficient investments for a decarbonised generation. When using CfDs, the state gets possible profits and covers potential shortfalls. Consumers are not directly affected by CfDs.

CfDs should always be voluntary. Voluntary CFDs provide security for both the investor and the state. Mandatory CFDs may cause unwanted uncertainty for both parties.

Two-way CfDs guarantee investors a fixed price while any revenue above a set strike price is returned to the state. Two-way CfDs are associated with several pitfalls which should be considered before being applied. First, two-way CfDs decrease the incentive to invest in new renewables if the strike price is set low. This will lead to higher electricity prices in the medium to long term. Second, two-way CfDs mute the price signal’s influence on investors’ incentive to build capacity that maximizes production when the value of electricity is highest, as producers do not receive higher revenue when the market price goes up. Accordingly, two-way CfDs also decrease the efficiency for short-term dispatch.

Limiting revenues of inframarginal generators

The Commission has questioned whether the inframarginal revenue cap, which limits the realised revenues of inframarginal generators to a maximum of 180 Euros per MWh, should be maintained beyond its current expiry date. If the inframarginal revenue cap is made permanent, it would greatly

hamper investments in new renewable energy production capacity.

All other generators besides the marginal unit that are producing electricity at a given hour—the inframarginal generators—receive revenues in excess of their variable costs for that hour, since the price is above their cost. Generators must use this inframarginal rent to cover their fixed costs, and revenues beyond that provide profit.

Renewable energy is the fastest way to increase European electricity generation capacity and lower energy prices. It is paramount for Europe’s green transition and to become independent of Russian gas.

The revenue cap is a de facto tax on renewables. It slows the growth of renewable energy, leading to higher prices in the long term. As such, it should be treated as a tax and an internal matter for the individual member states, not a mandatory European revenue cap. If a permanent European tax on renewable energy generation is introduced, it must be under article 113 and not under article 122 in the Treaty on the Functioning of the European Union.