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# FORTUM'S VIEWS ON THE REVISION OF THE EU'S ELECTRICITY MARKET DESIGN (EMD)

The decarbonization of the European economy requires **massive investment in the power sector,** driving essential systemic changes. Today's power market design builds **on well-functioning markets that lead to efficient dispatch in the short term** but **misses to provide sufficient long-term signals needed to ensure investment predictability and stability.**

The most important challenge to resolve with the EMD reform is to provide customer access to CO2-free electricity with competitive prices in the long-run. **In the Nordics, the main objective should be to build-out more flexible and dispatchable capacity**. These investments are needed for the energy transition and security of supply.

The European Commission is expected to present a legislative proposal on the revised electricity market design during Q1/2023. The Commission launched a public consultation focusing on following areas: long-term contracting instruments (PPAs, CfDs, forward markets), renewable energy acceleration, revenues of inframarginal generation, consumer empowerment and transparency of the energy markets.

## Fortum's key messages

Power Purchase Agreements (PPAs)

- Currently there are **no specific barriers to enter into PPAs in the Nordics**. We consider that PPA's are one of the tools to safeguard revenue for new individual capacity build-outs of low-carbon technology, balanced price levels for consumption and long-term balance of supply and demand.
- Extending public guarantees (credit) or insurance mechanisms to back base-load PPAs could mitigate counter-party risk and lower the Weighted Average Cost of Capital (WACC) of clean electricity projects. The EU **should not introduce obligations on suppliers and or consumers to use a certain instrument** in their business model.
- Impacts of increasing the uptake of PPAs should be thoroughly assessed and go hand-in-hand with maintaining a good level of liquidity in the short-term market, having a level playing field between undertaking of different size and locations and increased costs for consumers. Possible impacts to financial market liquidity should also be thoroughly assessed.

Forward markets

- Well-functioning forward markets are essential for both electricity consumers, suppliers and producers. Liquidity in many organised forward markets across the EU is insufficient and the time horizon for hedging too short. Liquidity and maturity challenges of the forward markets impede investments into new capacity.
- The development of the European forward markets should focus on improving collateral and margining calls to promote liquidity on the forward markets, create obligation for

establishing virtual trading hubs complemented with liquid and accessible transmission rights, as well as oblige TSOs to provide longer maturity of transmission rights.

Contracts for Difference (CfDs)

- **CfDs should not distort short term price signals that secure efficient operation and outage planning.** If the volume of CfD's in the market is too high, essential short-term prices will be diluted. Potential problems also include publicly financed over-procurement of capacity leading over-investments and ultimately increased cost for end-users. Impacts of CfDs to the functioning of the electricity markets should be thoroughly assessed.
- In contrast to other EU countries, on-shore wind and solar have reached cost competitiveness and been built market-based in the Nordics. **Therefore, CfDs or similar arrangements could secure investments in dispatchable and flexible capacity in the Nordics**, which ultimately correct the supply/demand balance and mitigates the price of electricity to an acceptable level.
- Considering the fact that most variable RES technologies are mature and commercially viable without government intervention, CfDs for new capacity should be **designed as a multi-criteria auction (for e.g. capacity, energy, inertia, reactive power) minimising cost for a set of procured capabilities** and answering to the specific system needs.
- By design, **CfDs for new inframarginal generation should be technologically neutral**, allowing Member States to decide their electricity-mix and enable competition between different technologies.
- Imposing two-way **CfDs or similar arrangements on existing generation would constitute a major departure to today's functioning markets** with the risk that it creates unintended and distortive effects.
- Transmission access guarantee could be an option for support offshore renewables if it can be implemented without distorting competition between on-shore and off-shore technologies.
- Accelerating the **permitting processes for new capacity and grid would be the key national short term measures** for fast deployment of renewables.
- As for ensuring investments into network infrastructure, system operators should be obliged to have long-term plans for price area setup, provide locational price signals for new capacity and accelerate grid investments where cost-efficient.

Limiting revenues of inframarginal generators

- Revenue limitations on inframarginal generators should not be maintained after the energy crisis. This instrument was intended as a one-off and temporary measure, limited to the crisis.
- Prolonging or making the revenue cap permanent would carry **negative impacts to the functioning of the European electricity market, system stability and security of supply**. The instrument would deter investors from investing into the EU green transition.

Alternatives to gas to keep the electricity system in balance

- Maintaining marginal pricing and creating long term market for flexibility that can be fulfilled by demand side response, storage or capacity would enhance the development of flexibility assets.
- Marginal pricing and available cross-zonal capacity secure efficient usage of resources and integration between markets (forward, Spot, intra, balancing). Using one price for electricity provides incentives to keep costs low and invest into new low-cost capacity, demand response and storage.

Better Consumer Empowerment and Protection

- The right for a seller and a supplier to decide on their offering/products is one of the basic characteristics of a free market. The supplier should not be forced to offer a certain type of product.
- The focus should be on ensuring competitive markets and good prerequisites for the retailer, such as liquid hedging possibilities. This ensures customer driven products and service development. Without sufficient hedging possibilities the suppliers cannot offer fixed price fixed term contracts.

Enhancing the Integrity and Transparency of the Energy Market

- The REMIT framework could include a distinct harmonised threshold of inside information both in MW (for information disclosure) and significant price impact.