eurelectric
powering people

Ensuring affordable energy in Europe

Eurelectric's views on the upcoming EU Plan for Affordable Energy for Households and Businesses

December 2024

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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Markets & Investments Committee
Customer & Retail Services Committee
Generation & Environment Committee
Electrification & Sustainability Committee
Distribution & Market Facilitation Committee

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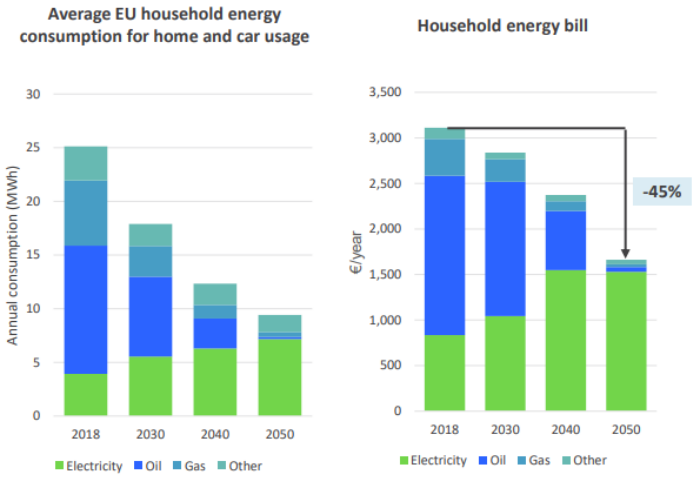
Eurelectric's views on the upcoming EU Plan for Affordable Energy for Households and Business

In 2025, the European Commission is expected to put forward an Action Plan for Affordable Energy to support industries and households through the energy transition. To ensure EU industry competitiveness and affordable electricity to all Europeans, we also need to guarantee that Europe remains investible. Within this background, Eurelectric provides several elements for consideration in the Action Plan.
Importantly, electrification will be a driving force behind a competitive Europe. We consider decarbonisation and electrification the most efficient and cost-effective path forward. In a net-zero scenario, direct electrification delivers three- to fivefold energy-efficiency improvements for end users, alongside the decarbonisation benefits of a renewable and clean[1] energy mix.

For example, shifting from internal combustion engine (ICE) vehicles to electric vehicles (EVs) reduces energy consumption for private transportation by a factor of three. Similarly, replacing gas boilers with heat pumps can cut household energy use for space heating by a factor of three to five. These efficiency gains are essential in reducing overall energy demand, which, combined with high electrification, can lower the average EU household energy bill by 45% across all energy sources by 2050.[2]



To ensure its benefits reach all consumers, we will need to reduce system costs by: boosting electricity demand; efficient use of existing fossil-free generation capacity while phasing-out fossil fuel usage; increasing flexible capacity in the system and promoting flexible consumption; as well as expanding the electricity grid, renewable and clean electricity generation. Stable and consistent electricity market design (EMD) rules and a fair treatment of electricity in terms of taxation compared to fossil fuels are a prerequisite to make this happen. Cross-border energy exchange in the EU's internal energy market will allow for efficient allocation, and therefore, is a no regret option. Encouragingly, the Draghi report has addressed these points.

Nevertheless, we caution interventions regarding energy markets. The power sector is acutely aware of the challenges posed by high energy costs, and we are working together with industry and households in ongoing stakeholder dialogues to address it. However, some ideas – including certain recommendations in the Draghi report – could have the

[1] Clean to be understood as renewable, low-carbon, decarbonised electricity generation technologies included in article 4 of the Net-Zero Industry Act
[2] Source: Eurelectric's Grids4Speed 2024 – slides 53-54, available here.

opposite of the intended effect by distorting market dynamics, increasing system costs and ultimately eroding investor confidence at a time when their capital is crucially needed.

Elements that promote affordable electricity in Europe

1. **Massively deploy more homegrown renewable and clean electricity:** According to the International Energy Agency (IEA), EU electricity consumers saved €100 billion during 2021-2023 thanks to the additional 150 GW of newly installed solar photovoltaics (PV) and wind capacity, displacing 230 TWh of fossil fuel generation, leading to a price reduction on all European markets. Where European regions are less exposed to imports of fossil fuels, industrial electricity prices have remained competitive on average with the US and China even after the crisis[3]. In its decarbonisation pathway, Europe must ensure a drastic reduction of permitting times, by properly and swiftly implementing the Renewable Energy Directive (RED) and further identifying and streamlining permitting processes that can be expedited. Additionally, grid operators need to have the right legal framework to handle the integration of the increasing volumes of homegrown clean electricity so that the benefits do not come at the cost of energy security or resilience.

2. **Electrification is key to reduce system costs:** As we decarbonise, most of the costs of a decarbonised electricity system stem from investments. These will be lower per capita if electricity demand is higher. Worryingly, for the last 20 years, electricity demand has stagnated at 23% of the final energy demand, far from the 35% needed by 2030[4]. Other world regions are progressing at a much faster rate. For instance, China has reached electrification levels over 28%, increasing by seven percentage points this past decade[5]. To enable further electrified demand in Europe, we recommend the following:

    a. **Reducing taxes to incentivise electrification:** Electricity bills are composed of different components: commodity, network charges, levies and taxes. Reducing costs for consumer needs to address the different aspects. A clear takeaway from the Draghi report is that taxes on electricity are much higher in Europe than in other world regions. It is essential to reduce taxes and levies that disproportionately impact electricity costs. Today, electricity is taxed 1.4 times more than gas[6]. Correcting this imbalance would incentivise the switch to decarbonised energy sources and speed up electrification. As upfront costs remain the main hindrance to transform consumers into prosumers., we extend the call to reduce taxes for solutions, installations, and equipment that advance household electrification such as heat pumps, EVs, solar PV.

    b. **De-risking upfront investments:** Investment needs for electricity generation alone amount to €140 billion yearly according to the European Commission's impact assessment on 2040 climate targets. As competition for capital increases, sound financing options increasing utilities' debt capacity will need to play a larger role. Indeed, bank guarantees and public support in the form of mezzanine capital, accelerated depreciation schemes and/or export agency guarantees can improve utilities' ability to raise capital. As a first step to improve public risk-taking, the European Investment Bank (EIB) needs to streamline its processes under the InvestEU programme and to adopt a more flexible approach to its lending facility. Finally, we support the creation of a dedicated Electrification

[3] See IEA Electricity Costs Outlook for 2024 here
[4] Based on REPowerEU Scenarios, See Eurelectric's Electrification Action Plan here.
[5] Eurelectric Power Barometer 2024 – Slide 54.
[6] Eurelectric Power Barometer 2024 – Slide 70

Bank to provide technical and financial support for the electrification of industrial processes outside of electricity markets.

c. **Updating our electricity infrastructure:** Lack of network capacity is a major obstacle for electrification and there is an urgent need to improve (i.e. expand, reinforce, renew, digitalise) domestic grid infrastructure to connect new consumers. As highlighted in Eurelectric's *Grids for Speed*[7] study, this requires better coordination to expand cross-border interconnections and, most importantly, to speed up and plan ahead for building and modernising grid infrastructure. Achieving this will depend on a forward-thinking regulatory framework, complemented by public funding and streamlined permitting processes.

   At first glance, one might assume that this would translate into a higher network tariff in order to finance these investments. However, if society electrifies at the rate predicted by the Commission and other stakeholders, this investment cost will be spread amongst a greater number of grid users and the distribution fee would stay flat through 2050. Beyond this, it is also important to consider that under-investment comes with a higher system cost than overinvestment. In Germany alone, the system costs of under-investment of 30% is €250 million in 2030 and €4.077 billion in 2050 while the equivalent costs of over-investment are €90 million in 2030 and €505 billion in 2050[8].

3. **Developing long term contracts:** Long-term instruments such as power purchase agreements (PPAs) and contracts for difference (CfDs) help transfer the benefits of renewable and clean energy to consumers.
   PPAs can help consumers hedge against price volatility. This long-term certainty often comes at a premium and risk allocation is agreed during the contract negotiation based on who is best placed to manage the different risks. Therefore, options for facilitating PPAs should be considered in the next Commission's mandate. For this, next to ensuring ample supply of renewable energy sources (RES) and clean generation ready to be financed, the EU could introduce guarantees for counterparty risks in PPAs backed by the EIB; allow transmission system operators (TSOs) to issue longer Long-Term Transmission Rights (LTTRs); or provide guidance on the coexistence between CfDs and PPAs, ensuring PPAs can be freely contracted without regulatory constraints on the commercialisation of power.

   CfDs also play an important and complementary role in accelerating the deployment of renewable and clean capacities. Therefore, while remaining voluntary, they should continue to be incentivised to complement existing spot and forward markets (i.e. their design must preserve the right short-term price signal and incentive to forward hedging).

4. **Mainstreaming flexibility both on the supply and the demand side:** Flexibility will be crucial in the future, and all system users should prioritise it. To achieve this, we must focus on mobilising all flexible assets on the supply side, increasing storage and activating demand response in a technology-neutral way.
   This can be accomplished through a three-pillar approach. First, a comprehensive system needs assessment is essential, which takes a broader, longer-term and cross-sector perspective and aims towards a resilient energy system. Second, we need to

[7] Grids for Speed, Eurelectric & EY, 2024 – available here.
[8] Electricity Distribution Networks and their Contribution to the Energy Transition, 2020 - Available here.

enhance the investment framework to ensure system needs are met, including complementary investment mechanisms valuing firmness and/or flexibility (such as capacity mechanisms or flexibility support schemes) where needed and with a market-compatible design.

Third, we should ensure efficient markets and operations in real time. Short-term markets, operational arrangements and digital infrastructure should be further enhanced to send efficient signals reflecting system needs. Barriers to forward market hedging should be removed, both for firm and flexible assets to improve their economic viability.

Furthermore, the flexibility potential of consumers by developing demand-side response should be unlocked through the proper implementation of the EU framework. Draghi's report notes that "industrial demand response may reduce overall energy system costs, benefit the integration of renewables and enhance overall grid flexibility, while reducing energy costs for industry". Well-designed end-user tariffs and efficient wholesale and ancillary services markets provide efficient price signals that incentivise consumers to adapt their behaviour.

5. **Implementing the agreed EMD to empower consumers:** The Draghi report confirms the internal energy market supported by its marginal pricing has reduced price variation across EU countries and delivered around €34 billion in cost savings each year to both household and businesses. This has been achieved by ensuring the most efficient available resources across the EU are employed at all times. Affordable electricity prices are important for all consumers (households, industry and business) and it is important to implement the additional provisions foreseen in the recent EMD review, in order to give sufficient options to consumers. The focus should now be on swiftly implementing the agreed design.

Elements that would further drive electricity costs up in Europe

We caution against the unwanted trade-offs in ill-designed short-term measures. Implementing certain recommendations of the Draghi report would undermine investors' confidence in the power sector. This, in turn, would drive up electricity costs for industry and households in Europe and hamper the energy transition:

1. **Inframarginal price caps:** The Draghi report acknowledges the negative effects of the inframarginal price cap during 2021-2023 but still suggests adopting similar emergency measures in case of energy crises. However, such an approach introduces a disincentive for consumers to enter long-term hedging contracts, as they would assume that in effect, they are hedged by the regulator itself.
   The power sector cautions against invoking a semi-permanent state of crisis with frequent interventions in the market as this will deter investors. Voluntary two-sided CfDs and improved consumer hedging (e.g. through freely contracted PPAs, cf. point 4. below) are structural solutions to avoid such temporary emergency measure.

2. **Mandatory extension of long-term contracts and support mechanisms with a clawback option to all renewable and nuclear assets:** Renewable and clean generation assets must have the option to benefit from long term contracts and support mechanisms. However, a mandatory application could negatively affect investor confidence and effective dispatch. For example, the critical value of hydropower is that it dispatches on scarcity signals from the market. Politically forced long-term contracts risk turning it into a baseload resource with less system value.

3. **Forcing energy market participants under strict banking regulation by removing the Markets in Financial Instruments Directive (MiFID) ancillary activity exemption:** The report suggests price relief by adopting significant regulatory changes to the energy trading environment. Energy markets are fundamentally distinct from financial markets because they serve the optimisation of physical assets. A removal of the ancillary activity exemption of MiFID would amplify liquidity strains and negatively impact the investment capacity of utilities. It would also lower the ability to hedge risks and thus could result in higher energy costs for consumers.

   Investment firms are subject to strict clearing obligations under the European Market Infrastructure Regulation (EMIR). To date, non-financial counterparties are not subject to this obligation if they satisfy certain conditions. If their specificity is not recognised, their financial commitments in the form of collateral requirements would rise to unsustainable levels, reducing utilities' incentive to hedge commercial risk.
   Electricity markets are already subject to stringent transparency and market integrity requirements (Regulation on Wholesale Energy Market Integrity and Transparency [REMIT II], Market Abuse Regulation [MAR]), tailored obligations under financial regulation (EMIR, MiFID) and sectoral legislation (EMD, RED).

4. **Requiring suppliers to supply a predefined minor share of their publicly subsidised production through PPAs at 'production cost plus mark-up' to specific industries exposed to international competition:** Such a proposal is concerning as it would entail a sort of regulated supply tariff for certain customer segments, resulting in a regression from the liberalisation process and leading to regulatory instability.

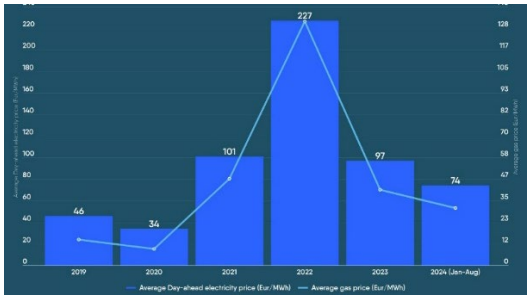
   This would not reflect other considerations that should be part of a PPA negotiation, such as credit risk of off-takers and risk premiums to cover for long-term risks and be disruptive for market functioning. Furthermore, restricting the tools available to suppliers, by mandating them to use PPAs, will reduce competition and limit suppliers' ability to offer diverse options, ultimately driving up the price for consumers.

   Finally, customers benefiting from this supply would see its incentives for energy savings and flexibility distorted, which, considering their size, would result in a negative impact on market price formation and a negative impact on the rest of consumers. PPAs shall remain a market-based instrument.

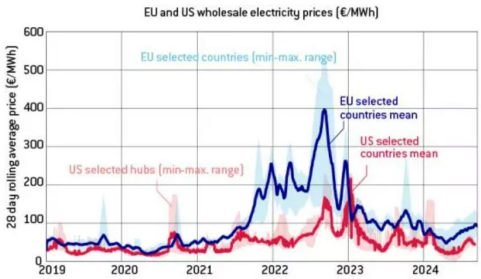
5. **Tariff exemptions or preferential treatment of specific consumers, jeopardising the uptake of electricity and increasing costs per capita across the board:** Exempting specific consumer categories from the payment of some costs (network charges, taxes or levies) has the consequence of inevitably increasing the cost for other consumers. Such cross-subsidisation would inevitably hamper electrification for consumers who bear the relief costs. If it is politically desired to support industry, then this should happen outside of the electricity markets via direct compensation from general taxation.

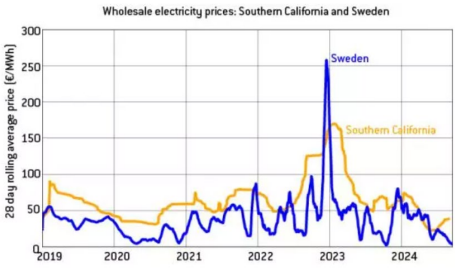
Annex

Europe's recovery from the energy crisis is ongoing, with a downward trend in electricity prices – Source Power Barometer 2024

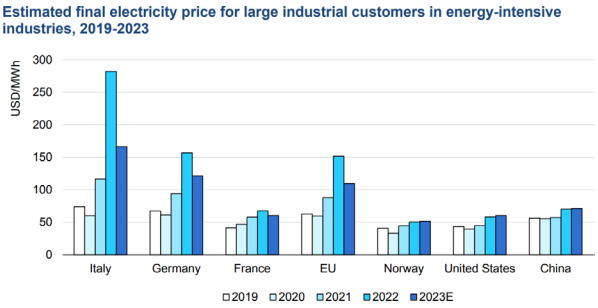


EU gas prices are five times higher than in the US. This makes EU electricity prices higher than in the US. Although some EU regions have lower power prices than some US regions, making it cost efficient to locate there – Source Bruegel

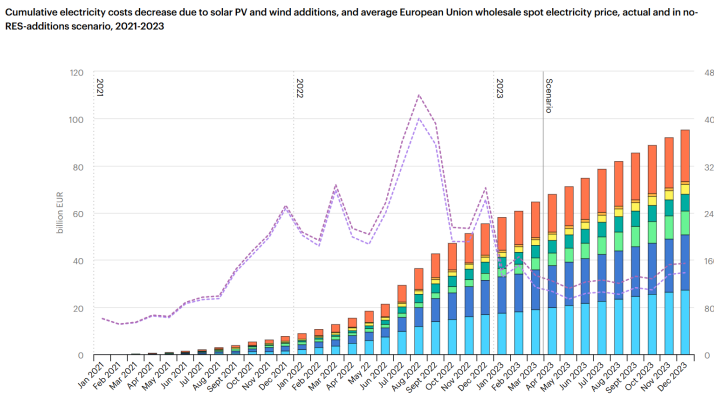




In certain regions which are less exposed to imports of fossil fuels, industrial prices have remained competitive on average with the US and China even after the crisis – Source IEA



EU electricity consumers saved around €100 billion during 2021-2023 thanks to additional electricity generation from newly installed solar PV and wind capacity. – Source IEA



Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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