EC Proposal to Reform EU Electricity Market Underscores Capital Needs

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On March 14, the European Commission (EC) announced a **proposal** to "revise the rules for electricity market design and for improving the EU protection against market manipulation in the wholesale energy market." The proposals envision amendments to several pieces of EU legislation, including the Electricity Regulation, the Electricity Directive and the Wholesale Energy Market Integrity and Transparency Regulation. The proposals, which align with the **European Green New Deal**, were motivated by concerns about energy supply following Russia's invasion of Ukraine, which in addition to causing supply worries also led to volatile energy prices. EU heads of government tasked the EC with working on structural reform of the electricity market with the dual objective of "securing European energy sovereignty and achieving climate neutrality."

If they move forward, the measures seek to incentivize longer-term contracts with non-fossil fuel power generation providers and foster price stability by reducing the risk of supplier failure. The EC also expects that the proposals will better protect consumers from short-term market price volatility and reduce the impact of fossil fuels on consumer electricity bills while also more accurately reflecting the reduced cost of renewables. The EC intends to "decouple[] citizens' energy bills from the prices in short-term wholesale markets." Consumers will be offered greater choice under the proposals, including the option to have "multiple or combined tailor-made" electricity contracts for differing needs.

This announcement follows a **public consultation** carried out by the EC in early 2023. The proposals will now be debated by the European Council and Parliament. The EC is currently accepting feedback on the proposals, which in final form will then be presented to the European

Parliament and Council "with the aim of feeding into the legislative debate." The feedback period, which began on March 16, will run for eight weeks. It is, however, currently being extended on a daily basis until the proposal is available in all EU languages.

Taking The Temperature: According to its press release, the EC expects that the share of electricity produced by renewable sources will grow from 37% in 2020 to over 60% by 2030. The shift to renewables "and increased electrification is crucial to achieving carbon neutrality by 2050. The electricity market design, therefore, helps to achieve the goals set out in the European Green Deal and contributes to the creation of jobs and growth." As we have discussed, however, the transition to a green economy and, with it, increasing reliance on renewables, requires capital to fund the development of renewable energy projects. We recently have observed efforts in the EU to promote such initiatives, where the EC approved, under EU State Aid Rules, a German scheme supporting rail transport operators' use of electric traction and state aid to support the expansion of a Samsung battery cell production facility in Hungary, as well as approval for the Spanish and German governments to subsidize the construction of two renewable hydrogen-powered steel production facilities for Europe's largest steelmaker. Nonetheless, obtaining public or private financing remains a significant challenge globally, and particularly in developing nations, notwithstanding recent signs of limited progress.