

## Non-paper on energy and electricity markets

**Current price levels of electricity are not only a national issue, but have a European dimension as well**

**The current crisis is a threat to carbon-cutting initiatives. Current price levels and volatility are politically unsustainable.** This is not only an issue for national governments, but also for the entire European regulatory framework, which is losing credibility. Indeed, this situation can provoke a backlash against carbon-cutting initiatives, as already seen in France with the *gilet jaunes* crisis. Carbon cutting policies have been generally understood and accepted in Spain but may not stand a sustained period of abusive electricity prices.

**The Commission should develop guidelines to allow Member States to react accordingly during periods of dramatic market stress**

**If the rules of the game are set at the European level, remedies should too.** Member States should not need to improvise ad-hoc measures every time markets malfunction, and then hope that the Commission will not object to these. **We urgently need a European policy menu predesigned to react immediately to dramatic price surges.** We are thinking about **flexible guidelines developed by the Commission**, which should provide governments with different options, thereby increasing certainty for consumers, incumbents and governments alike. We must try to anticipate and prepare for any unforeseen setbacks that may appear in the road towards carbon neutrality.

**We need to reform the wholesale electricity market to pass on the benefits of cheaper renewable technologies to consumers**

**We need to reform the rules of a power market designed in a context of smaller price differences between technologies than the ones we see today.** With today's market design, consumers are not participating in the benefits provided by a cheaper renewable generation mix. In the last three years, we have halved the emission intensity of our generation mix and strongly reduced the participation of fossil fuel power plants. However, fossil fuel plants still set the price and are behind the sudden increase in the cost of electricity. We must not forget that there is no decarbonisation without the electrification of the economy. Our EU objectives depend on this.

**We should adopt measures to prevent financial speculation in EU ETS markets**

**A bubble on EU ETS is the last thing we need; EU ETS should be a market for energy and industrial companies.** We are also of the position that the EU ETS trading should not be available to all agents, especially not to speculators with market power. There is significant correlation between increasing price levels and the increased presence of non-incumbents in the market, especially after July 2020. ETS prices should signal relative scarcity of CO<sub>2</sub> emission rights for producers and incentivise energy intensive industries to switch to less-polluting technologies. If financial speculation rather than real factors drives prices up too quickly, it threatens the smooth transition to an industry powered by clean energy.

**A centralised European platform to purchase natural gas should be set up, facilitating the build-up of strategic gas reserves**

**Europe's strategic autonomy is incompatible with the current level of exposure to fluctuations in international energy markets.** While we cannot reduce our dependency in the short term, we can and should increase our bargaining power. This requires a centralised European platform to purchase natural gas. We have done it quite successfully for vaccines and should reproduce this model to other strategic fields such as this one. Furthermore, we could use our increased bargaining power to constitute strategic reserves that allow us to mitigate our exposure to market fluctuations.

**Gas producers are behaving strategically to maximise their profits, we should act together to avoid being at their mercy.** This is not only important to contain current energy prices, but also to protect us against producers using energy prices as a political bargaining tool in other matters.

#### **All national measures recently introduced in Spain are fully compliant with the EU legal framework**

**The set of measures introduced with the new Royal Decree** aims to continue decarbonizing our economies and to achieve the ambitious objectives set out at the national, European, and international level. Although the main factors behind today's soaring electricity prices are beyond the control of European Union governments, we have focused our attention on those components of the electricity bill that we, national governments, can modify, **always within the limits of the European legislative framework and the EU internal energy market. All measures included respect the existing marginal pricing scheme of European wholesale markets, and most measures are only temporary until the current spike in gas prices eases.**

**Spain has been fully compliant with European rules despite the political sensitivity of the current crisis.** Other countries have adopted measures that are less orthodox, and the Commission has maintained a prudent approach. We expect at least similar treatment.

## ANNEX: MEASURES RECENTLY ADOPTED IN SPAIN

### 1) Reduction of taxes and levies

- Extension of the temporary suspension of the Tax on the Value of Electricity Production until the 31st. of December of 2021.
- Temporary reduction of the excise duty rate on electricity (from 5.11% to 0.5%), abiding to the minimum rates set out in the Directive<sup>1</sup> for the taxation of energy products and electricity.
- Increase of the amount of revenues from emission allowance auctions used to finance levies in the electricity bill: from 1,100M to 2,000M euros.
- Temporary reduction (until the 31st. of March 2022) of the excess gains that non-CO2 emitting power plants are obtaining in the wholesale market thanks to the repercussion in the final wholesale price of the cost of gas. A cost that these plants do not have to bear. The methodology is similar to that used to limit windfall profits from higher CO2 prices.

**This measure is in line with European rules, since the reduction will take place ex post, outside of the market, and will therefore have no impact on the price signals reflected either in these markets, nor on the existing marginal pricing scheme.**

### 2) Measures to protect the most vulnerable households:

- A four-month extension of bans on electricity shutoffs for vulnerable consumers.
- Modification of the Last Resort Rate (TUR) for gas: The Last Resort Rate protects small consumers. This reform includes a temporary (until April 2022) modification of the methodology used to calculate the Last Resort Rate, **a tariff that is fully compliant with European legislation on the EU internal gas market.** The aim is to mitigate the impact that the extreme increase in the cost of gas has generated. **This is a temporary measure and the difference in price will be gradually returned to gas retail companies.**

### 3) Promotion of forward contracting in the electricity market

- Adoption of a system of centralised auctions of power purchase contracts in which the dominant operators - Iberdrola, Endesa, Naturgy and EDP - must offer a percentage of their generation capacity to small retailers and large industrial consumers willing to purchase it.

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<sup>1</sup> Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity.

**The measure aims to address the lack of liquidity in electricity forward markets that prevents smaller retailers and other consumers from obtaining access to long-term electricity contracts. It is, in short, a measure to improve the functioning of the market while maintaining the price signals observed in other wholesale markets.**

- The instrument is organised through competitive tenders, thus guaranteeing fair and effective competition.
- A reserve price is introduced to guarantee that no energy is sold below cost.

**4) Amendment to the law regulating the use of water resources (*Ley de Aguas*) to establish a minimum and maximum regime for the monthly flows of water in reservoirs. The aim is to guarantee a rational and sustainable use of water resources in certain reservoirs, in accordance with the Water Framework Directive.**