



# The Electricity Market Design Revision Proposal

## Position Paper

Brussels, May 2023



# Introduction

The Russian invasion of Ukraine has emphasised that relying on fossil fuels imports for the European Union's energy system can have dramatic consequences on energy security and the economy at large. More than ever, energy independence, security of supply, sector integration, and decarbonisation are guiding policymakers' actions.

Although decarbonising the energy sector is crucial, most system flexibility is currently provided by fossil gas: this has led to an insecure energy system and forced the European Union to depend on energy imports. The resulting price spikes and gas shortages have prompted quick action by European Union policymakers.

On March 14, 2023, the European Commission released a [proposed reform of the Electricity Market Design](#), which, while somewhat limited in scope, has the potential to significantly impact the energy storage sector. EASE strongly supports this proposed revision, as it strikes a good balance between public involvement and market-based mechanisms and aims to maintain the current framework focused on day-ahead and intraday markets while introducing some changes. However, policymakers require guidance to make the most of this opportunity to change the electricity market framework.

To achieve the 2030 and 2050 climate and energy targets, the regulatory environment must be adjusted to ensure long-term investment signals and adequate deployment of flexibility and energy shifting capacity.

EASE outlines below its key position on how to enhance the proposal and make non-fossil flexibility a central component of the new decarbonised energy system.

This document is based on the previously published EASE [position paper on the Electricity Market Design revision](#) and the EASE [reply to the European Commission's public consultation](#).

# 1. Peak Shaving Product

## Article 7a

### Assessment:

Minor alterations required

### At a glance:

Transmission system operators (TSOs) may procure market-based peak shaving products to call for electricity demand reduction during peak hours, defined as an hour with high consumption combined with a low level of electricity generated from renewables or other inframarginal energy sources. The aim is reducing gas during these periods to lower prices and CO2 emissions.

### Position:

It is a good initiative: non-mandatory so Member States have flexibility, but **unfairly discriminates against certain energy storage technologies** which can provide valuable peak shaving. Grid scale front-of-the-meter and co-located energy storage can also reduce demand peaks at a system wide level, not only behind-the-meter energy storage, helping to reduce gas use. For example, industry may rely upon nearby grid-based energy storage for clean electricity during peak hours, reducing demand for new electricity into the system, however this peak shaving potential would not be remunerated.

Allow all energy storage technologies to participate. Limiting the peak shaving product to demand response only would be highly discriminatory as only behind-the-meter energy storage would be able to participate.

- ✓ Allow all energy storage technologies to participate. Limiting the peak shaving product to demand response only would be highly discriminatory as only behind-the-meter energy storage would be able to participate.

# 2. Assessment of Flexibility Needs

## Article 19c

### Assessment:

Minor alterations required

### At a glance:

By January 2025, and then every two years, the regulatory authority of each Member State must assess the flexibility needs in the electricity system with a 5-year horizon. The potential of non-fossil flexibility (energy storage and demand response) to fulfil this need at both transmission and distribution level shall be included. The report shall distinguish between seasonal, daily and hourly flexibility needs.

### Position:

It is essential that Member States clearly foresee future flexibility needs so future bottlenecks to renewable energy deployment are avoided.

However, **flexibility methodologies must be holistic** to ensure all needs are addressed and Europe can withstand any future crises, considering a wide range of factors to ensure a fair representation of requirements, including going beyond simply matching demand with supply, by factoring in flexibility needed to fulfil ancillary services and curtailed electricity. Recent high gas prices demonstrate that Europe's flexibility must be prepared for any future crisis.

- ✓ Ensure flexibility assessments are holistic and crisis-proof. Member State modelling must factor in congestion within bidding zones and consider a scenario with high gas prices.

# 3. National Objective(s) for Energy Storage and Demand Response

## Article 19d

**Assessment:**

Minor alterations required

**At a glance:**

To build upon the flexibility assessments, Member States shall set an indicative national objective for demand response and energy storage, to be reflected in their National Energy and Climate plans.

**Position:**

A joint objective for energy storage and demand-side response sets unclear signals to investors and network planners, whereas separate objectives in National Energy and Climate Plans following flexibility assessments would bring better clarity.

- ✓ Member States should set separate objectives for energy storage and demand response.

# 4. Flexibility Support Schemes

## Articles 19e-f

**Assessment:** Only minimum alterations required

**At a glance:**

When a Capacity Mechanism is not in place, or a Capacity Mechanism alone is not sufficient to meet flexibility needs in accordance with Art. 19d, Member States may set up specific support schemes for energy storage and demand response. These need to be (in addition to usual State aid requirements such as proportionality, cost-effectiveness, and others) limited to new investment, follow open and transparent competitive auctions, preserve exposure to price signals, set out a minimum level of participation (in terms of activated energy), and apply penalties for capacity providers not respecting it.

**Position:**

The support scheme proposed strikes a good balance between encouraging the deployment of new non-fossil flexibilities and market exposure. The proposal gives Member States freedom while along keeping a level of harmonisation across the EU.

Especially for large scale, grid-level energy storage projects, a longer timeframe is necessary to ensure investment security and bankability of the project. At the moment, the energy storage business case is based on ancillary services and arbitrage, meaning it relies on the day-ahead and intraday markets. Stacking these short-term revenue streams with long-term public support for part of the asset's capacity would accelerate project deployment through private investments.

- ✓ Provide long-term contracts of 10 years minimum to ensure a stable revenue flow to energy storage accessing support schemes.

# 5. Capacity Mechanisms (CMs)

## Articles 19e and 22

### Assessment:

Major alterations required

### At a glance:

Member States shall consider the introduction of additional criteria or features to promote the participation of non-fossil flexibility when designing CMs.

### Position:

The proposal gives Member States no new powers, nor mandates any new requirements, to ensure swift decarbonisation of CMs (including strategic reserves) across the EU.

According to ACER and the Commission's Staff Working Document on the Electricity Market Design as of 2022 energy storage is "still at very low levels" and represents only around 0.2% of power capacity across European capacity mechanisms, excluding pumped-hydro storage, which represents around 5.5%. For new clean technologies to play a larger role, the carbon cap should be aligned with the European Investment Bank's leading policy of 250 g of CO<sub>2</sub> per kWh.

- ✓ Introduce a carbon cap at 250g of CO<sub>2</sub> per kWh and a phase out to zero by 2040 to ensure a swift decarbonisation of the European energy system.

# 6. Power Purchase Agreements (PPAs)

## Article 19a

Assessment: Minor alterations required

### At a glance:

The proposal heavily relies on PPAs to bring long-term price stability to end-consumers. Member States shall facilitate the deployment of PPAs with a view to reaching the objectives set out in the NECPs. They are encouraged to do so by reducing the risks associated to off-taker payment default, through guarantee schemes at market prices, and by allowing facilities with a signed PPA to participate in support schemes (and even, if needed, give preference to bidders presenting a signed PPA from potential buyers that face entry barriers to the PPA market).

### Position:

PPAs are a useful tool to shield end consumers from price spikes and are necessary for developers in order to ensure investment security for new projects. The new provision on PPAs, though, focuses on generation and **does not explore 24/7 time-matched renewable PPAs**. If largely deployed, 24/7 PPAs would allow end consumers (especially C&I) to decarbonise their own activities, and at the same time to foster energy storage uptake through private investments.

- ✓ Promote renewable 24/7 PPAs which time-match generation and consumption.

# 7. Curtailment Reduction and Redispatch Optimisation

## Articles 13 and 50

**Rating:**

Minor alterations required

**At a glance:**

Member States with above 50% renewable energy and high-efficiency cogeneration in the electricity supply are no longer obligated to adhere to the 5% cap on renewable energy curtailment.

**Position:**

- ✓ Member States should be able to impose caps on renewable curtailment to optimise the use of renewable energy sources and to incentives the use of flexibility.



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About EASE:

The European Association for Storage of Energy (EASE) is the leading member - supported association representing organisations active across the entire energy storage value chain. EASE supports the deployment of energy storage to further the cost-effective transition to a resilient, low-carbon, and secure energy system. Together, EASE members have significant expertise across all major storage technologies and applications. This allows us to generate new ideas and policy recommendations that are essential to build a regulatory framework that is supportive of storage.

For more information please visit [www.ease-storage.eu](http://www.ease-storage.eu)

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Disclaimer:

This response was elaborated by EASE and reflects a consolidated view of its members from an energy storage point of view. Individual EASE members may adopt different positions on certain topics from their corporate standpoint.

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