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NOTE

From: General Secretariat of the Council
To: Delegations
Subject: Energy and electricity markets
– Information from the Spanish delegation

Delegations will find in the Annex an information note from the Spanish delegation on the above subject, to be dealt with under "Any other business" at the Council (Environment) meeting on 6 October 2021.

Energy and electricity markets

- Information from the Spanish delegation -

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

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

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

If the rules of the game are set at European level, the remedies should be 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 pre-designed to react immediately to dramatic price surges.** Our proposal is for **flexible guidelines developed by the Commission** that provide governments with different options, thereby increasing certainty for consumers, incumbent companies and governments alike. We must try to anticipate and prepare for any unforeseen setbacks that may appear on 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 an electricity market that was designed when price differences between technologies were smaller than those we are seeing today. With the current market design, consumers are not sharing 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 also take the view that EU ETS trading should not be available to all agents, and particularly not to speculators with market power. There has been a significant correlation between increasing price levels and the increased presence of non-incumbents in the market, especially since July 2020. ETS prices should signal the relative scarcity of CO₂ 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 for purchasing natural gas. We have done it quite successfully for vaccines and should reproduce this model in 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, so we should act together to avoid being at their mercy. This is not only important for containing current energy prices, but also for protecting us against producers using energy prices as a political bargaining tool in other contexts.
