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NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee/Council

Subject: Tackling rising energy prices
- Exchange of views

In view of the TTE (Energy) Council on 2 December 2021, delegations will find in the annex a discussion paper on the Energy prices.

Background note: energy prices, TTE-Energy Council 2 December 2021

The high level of energy prices in the European Union has become a matter of great concern to governments and European citizens alike. In the light of the recent spikes, under the Slovenian Presidency, the issue was discussed in depth at the European Council on 22 October as well as at the extraordinary Energy Council on 26 October. The European Council in October invited the Commission and the Council to swiftly consider medium and long-term measures that would contribute to energy at a price that is affordable for households and companies, increase the resilience of the EU's energy system and the internal energy market, provide security of supply and support the transition to climate neutrality, taking into account the diversity and specificity of Member States' individual situations.

As a follow-up to those discussions, the European Commission presented a 'toolbox' of possible measures that Member States may consider for mitigating the increases in energy prices. It also asked ACER to prepare an assessment of the current wholesale electricity market design. Subsequently, on 15 November the European Union Agency for the Cooperation of Energy Regulators (ACER) presented its preliminary assessment of Europe's high energy prices and the current wholesale electricity market design. This preliminary assessment constitutes an important milestone in view of the finalisation of the final ACER report expected in April 2022 as well as an important tool supporting an evidence-based policy discussion.

ACER's report identifies the global surge in natural gas prices (driven mainly by higher LNG demand in Asia) as the key factor impacting energy prices, followed by weather conditions and higher prices of CO₂ allowances. The report also points out the benefits of moving from long-term contracting to spot pricing (based on marginal costs) over the past decade. The current market outlook is that the high gas prices and electricity prices should fall significantly after the winter season. A key variable in the very near term is the weather during the upcoming winter and its impact on gas demand.

The preliminary assessment explains how key characteristics of the European wholesale electricity market design are relevant to the current political debate. According to ACER, European integration in the electricity market decreases price volatility and optimises the use of resources across Europe. Moreover, increasing cross-border trade improves competition and security of supply, and decreases the need for expensive back-up resources. The interim report also explains why a "pay as cleared" market coupling enables the recuperation of high capital costs and helps to reduce price volatility.

The overall objective of ACER's assessment, which is due in April, is to examine the functioning of the current wholesale electricity market design, to address its benefits and drawbacks and, if deemed relevant, to offer possible considerations for its adjustment and/or measures to complement it. In particular, ACER plans to analyse:

- the ability of the **current market design** to deliver the investment signals necessary for incentivising generation and demand-responsive investment at the scale necessary to achieve the objectives of the European Green Deal. It will examine in particular the long-term tools, such as hedging instruments, more liquid forward markets, contract-for-difference and/or increased facilitation of long-term solutions for underpinning sufficient revenue certainty in electricity generation;
- whether the currently available hedging instruments are sufficient to reduce energy price volatility;
- whether **end-consumers are sufficiently protected** from the consequences of surges in energy prices. In particular, ACER will assess the benefits of fixed-price retail contracts.

Questions for the debate

Ministers are invited to consider the following questions when formulating their interventions:

1. What is your experience with the choice of measures proposed in the **Commission's Toolbox and their effects on energy prices and consumer response?**
2. **What are your reactions to ACER's preliminary assessment and suggestions on additional aspects that could usefully be addressed in the final report ?**