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NOTE

From: General Secretariat of the Council
To: Delegations

Subject: AOB for the meeting of the Transport, Telecommunications and Energy Council on 16 March 2026
Improving the merit order – Transparency and measures to address ETS Pass-through in EU Day-ahead electricity prices
- Information from Austria

Improving the Merit Order - Transparency and measures to Address ETS Pass-through in EU Day-ahead electricity Prices

Under the EU Emissions Trading System (ETS), CO₂ costs are factored into the variable costs of emissions-generating production and included in day-ahead bids (SDAC). When fossil fuel power plants—especially gas—set the price, the CO₂ component is transferred to the zonal market clearing price. At the same time, however, it is not actually apparent from the market result which technology set the price in the respective market time unit – or whether a trader portfolio without its own generation was marginal (portfolio-based bidding). Ultimately, it is an interpretation of the “merit order.” This information deficit makes it difficult to reliably quantify and plausibly explain the ETS contribution to the electricity price, but it also prevents targeted, proportionate responses in price crises

A sensible way to address this issue would establish an EU-wide harmonized and binding transparency and reporting layer for day-ahead results. Ex post and aggregated by bidding zone and time unit, it should be disclosed which technology class set the price and which marginal emission indicator is associated with it. While clearly not replacing portfolio-based bidding with unit-based bidding, but rather using existing data and, where necessary, additional data to be collected for a robust ex-post allocation of prices to generation technologies. The basic logic of the EU internal electricity market and the ETS would remain unchanged, and the risk of creating different qualities of electricity, which would have adverse effects on liquidity and the future settlement of already concluded forward market transactions, is eliminated. Nevertheless, the associated gain in information is a fundamental prerequisite for further reforms and addresses the fundamental deficit surrounding merit order pricing, creating a uniform information situation across the EU.

This approach would also not interfere with the efficiency of the day-ahead auction process. Portfolio-based bidding, market coupling, clearing algorithms, order formats, and physical dispatch remain unchanged; it is explicitly not a step toward unit-based bidding. Technology transparency is in a binding way derived outside of clearing from harmonized plant registers and measurement, schedule, and dispatch information and published in a standardized, aggregated form; sensitive information is protected through aggregation and, where necessary, delayed publication. Which additional data needs to be collected must be the subject of further investigation across the EU. Such an approach would highlight when gas (and other emitting technologies) sets prices, thereby enabling a transparent derivation of the ETS/CO₂ component in the day-ahead price. This improves the explainability of price formation and creates the basis for examining further, narrowly limited measures to cushion excessive ETS pass-through if necessary.