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MEETING DOCUMENT

From:	General Secretariat of the Council
To:	Working Party on Energy
Subject:	EU solidarity contribution and measures concerning the electricity market / PPT presentations / EWP 15 September

Following the Energy Working Party on 15 September, delegations will find attached the ppt presentations on the EU solidarity contribution and the measures concerning the electricity market.



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Technical Briefing

Emergency intervention to reduce electricity bills in Europe

EU solidarity contribution

Context

Les bénéfices de TotalEnergies s'envolent 📈

Porté par la flambée des cours du gaz et du pétrole, TotalEnergies affiche un bénéfice net de 10,6 milliards de dollars pour les six premiers mois de l'année. Le groupe veut présenter ses perspectives en tirant une croix sur la Russie en septembre prochain.

Les Echos, 18 July 2022

ENERGÍA >

La subida del petróleo dispara el beneficio de Cepsa hasta los 661 millones en 2021

El País, 16 March 2022

Shell reports record profits on surging oil and gas prices

Supermajor launches \$6bn buyback scheme after reporting \$11.5bn in earnings

Financial Times, 28 July 2022

Eni Raises Buybacks as Profit Soars on High Energy Prices

- Company will repurchase 2.4 billion euros of shares this year
- Second-quarter profit of 3.81 billion euros beats estimates

Bloomberg, 29 July 2022

MOL Q2 profit surges as refining margins spike, 2022 EBITDA guidance raised

Reuters, 5 August 2022

Repsol profit doubles on soaring oil prices but refining weighs

Reuters, 28 July 2022

Objectives and principles



- Ensures **fairness** in the package.
- Ensures a **contribution from fossil fuel sectors**, given their surplus profits enabled by the crisis.
- Provides one-off contribution to finance measures to...
 - ...mitigate the impact of soaring energy prices for consumers and companies;
 - ...reduce energy consumption;
 - ...support energy intensive industries;
 - ...develop the EU's energy autonomy to the benefit of all Member States.
- Preserves the smooth functioning of the **internal market** and ensures **solidarity** between Member States.

Key design features of the solidarity contribution



Calculated based on profits currently taxable in the EU under corporate income taxation.



Calculated on surplus profits in 2022 made by companies in the fields of extraction, mining, refining of petroleum or manufacture of coke oven products.



Surplus profits are defined as profits which are above a 20% increase on the average profits of the previous three years.



A rate of at least 33% will be applied to the surplus profits.

How the solidarity contribution can be used



€25 billion

Estimated revenue

- To support households, businesses and industries, particularly the most vulnerable.
- To create incentives for energy demand reduction.
- To promote investment in renewables and energy efficient products.
- To finance cross-border projects, in line with REPowerEU.

Thank you

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Emergency intervention to address high energy prices

Measures concerning the electricity market

15.09.22

EWP

Context: Overview of Measures

Why a Regulation under Article 122?

"...the Council, on a proposal from the Commission, may decide, in a spirit of solidarity between Member States, upon the measures appropriate to the economic situation, in particular if severe difficulties arise in the supply of certain products, notably in the area of energy."

Current challenges on the gas & electricity markets constitute **a difficulty in the supply of an energy product.**

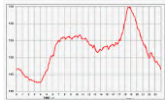
What is proposed?

- 1 Reduce demand:** at peak price times (full use of DR potential) & overall (initiatives to include all consumers)
- 2 Redistribute**
 - Surplus revenues from inframarginal generators
 - Surplus profits from companies with oil, coal, gas & refinery activities
- 3 To benefit consumers:** more clarity on regulated prices for households & SMEs, while preserving the incentive to reduce demand.

Reduction of total electricity consumption



- **Why?** To **preserve fuel stocks for electricity generation**, having a direct impact on the electricity prices and positive effect on SoS.



- **What?** Reduction of **total consumption**, on a monthly basis, compared to average of the last 5 winters.



- **Who?** The measure is meant to **address all consumers**



- **How?** The target is **indicative**, to **leave MS the flexibility** to balance the impact on their economy.



- **How much?** A reduction by **10%** seems a reasonable target taking into account the reduction of consumption due to the crisis and already announced ambitions by some MS.

Reduction of electricity consumption during peak price hours

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- **Why?** To **smoothen the hourly consumption profile** in hours where gas is used at most, to provide maximum effect and boost demand response.



- **What?** Reduction of the consumption during the **most expensive hours**, compared to the forecasted consumption in these hours.



- **Who?** Consumers **who can deliver flexibility** through demand reduction or demand shifting offers on an hourly basis (e.g., industries, aggregated households).



- **How?** Target is **mandatory**, to be achieved **through market-based processes** such as tenders or direct market participation of demand response.



- **How much?** A reduction by **5%** in 10% of the most expensive hours of the month would affect 3 to 4 hours per weekday, covering the usual peak load hours. The current potential of demand response could fulfil the mandatory target.

Cap on market revenues

- **Why 180 EUR / MWh? The cap should:**

- Not distort the dispatch of power plants
- Not deter investments by inframarginal electricity generators
- Not affect profitability assessments of past investments
- Help mitigate high electricity prices

180 EUR/MWh based on:

**Average future + spot prices
before Feb 2022**

LCOE

security margin

- **What is the cap intended to apply to? MWh of electricity produced...**

- All market timeframes: forward, day-ahead, intraday, balancing
- Bilateral (OTC) or centralised marketplaces (e.g., power exchanges)
- Should not affect PPAs, hedging contracts settled based on spot prices, if the revenues realised are below the cap

Cap on market revenues

- **How will the revenues be collected?**
 - At settlement or thereafter, a choice left open to MS.
 - No single solution works for all Member States due to differences on liquidity of forward markets, portfolio v unit bidding, monopoly v NEMO competition.
 - Possibility to apply ex post measures.
- **What about existing / new national measures?**
 - Existing measures (e.g. Greek regulated costs, Iberian mechanism) should not be affected, if they achieve the same result.
 - New measures can be introduced.
 - Limitations regarding their design.

Cap – what technologies are covered?

Excluded

- High marginal costs generation: gas, coal
- Flexible generation: storage, demand response
- Demonstration projects
- Producers subject to State measures such as FITs, 2-way CfDs

Included

- Wind
- Solar
- Geothermal
- Hydro without reservoir
- Biomass
- Waste
- Nuclear
- Lignite
- Crude oil and other oil products

Optional de minimis:
 ≥ 20 KV

Distribution of the surplus revenues



- To whom the revenues from the inframarginal cap can be distributed?
 - Choice left open to MS which final electricity customers to target (households and/or companies).
- What can the revenues be used for?
 - For example:
 - ✓ income transfers, rebates on bills, compensating suppliers for supplying below cost, investments leading to a structural reduction of consumption.
 - ✓ investments in decarbonisation technologies, including RES (e.g. PPAs or direct investments in RES generation), or investments in energy efficiency.

Agreements between Member States

- **Why are such agreements needed?**

- Some MS more dependent on imports of electricity from other countries → unable to obtain enough revenues from the application of the cap to support their final customers.

- **How will such agreements work in practice?**

Who? MS with net imports of electricity equal or higher than 100% of their generation and the main exporting country	When? by 1 December 2022
What? to share the surplus revenues	<i>Optional for other MS</i>

Retail measures: regulated prices for SMEs

- SMEs may not benefit from regulated prices under Electricity Directive
- Commission already flagged extension to SMEs in current crisis
 - May Communication on Short-Term Energy Market Interventions and Long Term Improvements to the Electricity Market Design
 - This proposal gives legal effect - and increases toolbox available to MS
 - No obligation on MS to extend regulated prices to SMEs
- Regulated prices limited to 80% of highest consumption in last 5 years
 - Maintains incentive for demand reduction but takes account of pandemic impact

Retail measures: below cost regulated prices

- Normal rules: Under Electricity Directive Regulated prices for non-vulnerable/energy poor must be “be set at a price that is above cost”
- During crisis it is justified to derogate from this rule - subject to clear conditions
 - Quantity covered by regulated price is limited and retain incentive for demand reduction
 - All suppliers can offer at regulated price – non discrimination
 - Suppliers are fairly compensated for additional costs – for example from revenue cap
- No obligation on MS to implement regulated prices

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Thank you!

Measures to achieve the demand reduction

- **Flexibility** for Member States to define measures. This will allow **timely implementation**.
- Main principles:
 - **Market-based**, with possible financial compensation supporting only the extra-effort for demand reduction
 - **Non-distortive**
 - Addressed to **all customers**, including aggregators
 - **Transparent**
- **Examples of measures**, which may include expanding existing schemes or national incentives to develop demand response:

National awareness-raising campaigns,
Publication of targeted information on the situation in the electricity system

Regulatory measures limiting non-essential energy consumption

Market participation of demand response, possible extra-compensation via tenders