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Targeted reform of the Electricity Market Design
Cepi's position paper

Cepi, the Confederation of European Paper Industries, welcomes with relief the European Commission's proposal for the reform of the Electricity Market Design (EMD). While we expect the co-negotiators to further clarify the provisions of the targeted amendments, the scope of the proposal should not be further extended. The reform should primarily aim at ensuring a stable energy market, a competitive price for industrial consumers and a reliable energy supply.

Cepi represents the European pulp and paper industry and gathers, through its 18 member countries, some 895 pulp, paper and board mills across Europe directly, employing more than 180,000 people. Our sector is investing at a rate of more than €5 billion per annum, increasing our production volumes while simultaneously reducing our carbon footprint.

The paper industry is the fourth largest industrial energy consumer in Europe. Before the energy crisis, our sector was a net buyer of about 40 TWh of electricity. Around half of the electricity consumed by our sector is produced on-site via highly efficient cogeneration (CHP). Our industry is the largest industrial consumer and generator of renewable energy with biomass coming from side streams of our activities accounting for almost 61% of our fuel mix.

The EU legislation must ensure that the European pulp and paper industry stays competitive in the global market. To this end, among others, it must provide access to all affordable fossil-free energy sources such as renewable electricity, biogas, hydrogen or nuclear power. In this context, **Cepi calls of the European Parliament and Member States to:**

1) **Safeguard the achievements of the current Electricity Market Design in Member States**

Cepi recognises the achievements of the liberalisation of the European electricity market, in general terms. We believe that worldwide, the European electricity market is one of the most liquid and transparent markets for purchasing electricity. In the past year, forward market liquidity has decreased due to increased political, regulatory and price uncertainty. However, before the ongoing crisis caused by the supply-demand imbalance, liquidity was enough to enable hedging power prices up to three years' horizon.

Therefore, a long-term regulatory proposal should not focus on resolving the short-term situation on the forward markets which is currently observed in the aftermath of the supply-demand shock. Any long-term regulatory changes on the short-term markets should categorically be supported by a thorough impact assessment. Emergency measures should be separate from long-term market design. Cepi welcomes measures complementing hedging solutions already existing in the electricity market to ensure certainty and predictability for industrial consumers.

2) **Ensure that companies retain freedom to develop their hedging strategies and to enter the electricity contacts of their choice**

Cepi welcomes the Commission's proposal for Member States to mitigate risks related to entering the Power Purchase Agreements by offering instruments such as guarantee schemes. The reduction of the financial risks is especially important for the small and medium enterprises. By offering guarantee schemes, Member States could further remove barriers for the industrial players to enter the PPA market.

The energy-intensive industries should be prioritised to have access to fossil-free electricity which has a predictable cost over time. However, each market participant, consumer or producer, must be able to freely handle their electricity price risks. PPAs should be signed based on individual needs of a market participant and their willingness to take risks.

The proposed Regulation should not force market participant to enter any kind of contract. The diversity of interests and hedge horizons is one of the core strengths of the market. Nevertheless, the contracts could be more standardised to ensure greater transparency.

3) Clarify provisions regarding the electricity projects eligible for the two-way Contracts for Differences

The proposed Regulation offers Member States the possibility to support new investments in electricity projects by entering the two-way Contracts for Differences. During the negotiations, the co-negotiators need to clarify the wording what kind of new investments will be eligible for this kind of support. By removing ambiguity in interpretation, the proposed amendments can ensure both short term implementation and level-playing field between the national support schemes for power generation.

Contracts for Differences are already used in some Member States. However, in markets, where CfDs are a novelty, the governments need to ensure that they do not undermine the market of Power Purchase agreements. Therefore, the use of CfDs should remain voluntary at Member States' level.

4) Reflect on the burden and risks which increasing state aid for the electricity projects imposes on the society

Investments in additional generation capacity, grids, and flexible resources need to be incentivised. Regulatory and permitting bottlenecks need to be removed to ensure the deployment and generation of fossil-free electricity which should be supported by the rapid development of new infrastructure.

But the co-negotiators need to be cautious of the burden which increasing state aid for the electricity projects imposes on the society. In practice, CfDs and governmental guarantee schemes shift the risk from companies to the national budgets. The sustainable competitiveness of the European electricity market should not depend on the government's subsidies.

5) Further incentivise voluntary flexibility services provided by the industry

Our sector can provide flexibility to the network by ensuring grid stability and reducing network stress from peaks in electricity demand and supply. This creates added value as paper mills provide a service to the grid, without jeopardising paper production in Europe.

Member States should accelerate the implementation of EMD rules and regulations to activate demand-side flexibility. Nevertheless, technology-neutral capacity mechanisms should be further assessed to complement the expected acceleration of renewable energy generation. On the demand side, a maximum level of flexibility should be allowed to maximise the use of energy oversupply. To achieve this, in the future levies and charges should be more closely aligned with actual market prices.

Demand response mechanisms should remain voluntary, where possible and profitable, for the manufacturing industry. The energy market should not depend on user flexibility or have a negative impact on the continuity of the production processes. In case a secure and reliable energy supply is not provided, industrial production should have priority if possible, and unlimited access to energy to maintain its production levels.

6) **Ensure that all industrial consumers can enjoy benefits of the reform**

The European Commission's proposal includes measures aimed at increasing the offering of fixed price contracts, ensuring access to affordable energy during an electricity price crisis as well as allowing households and SMEs to participate in energy sharing as active customers. Cepi believes that these provisions should explicitly include all industrial consumers no matter their size.

Meeting the decarbonisation targets will require an increased role of prosumers, including industrial prosumers such as the pulp and paper sector, in the medium- and long-term. Therefore, extending concepts like the energy sharing provisions to all-sized companies would further support the development of renewable energy sources by pooling resources and sharing risks and burdens.

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