

Answer to the EC Consultation
“A reform of the Market Design
Ensuring French industrial competitiveness”

13 February 2023

Created in 2018, France Industrie is the professional organization charged to represent and promote the industry based in France. Gathering 77 members (30 Federations of industrial sectors including manufacturing and energy production, and 47 CEOs of major industrial companies), France Industrie welcomes the opportunity to express its point of view for the upcoming reform of the market design.

Analysis

The market design of electricity has quite worked well for a long time. Nevertheless, the current energy crisis and the Russian war with Ukraine has impacted the short-term functioning of the European energy markets, revealing **certain limits**, this model based on a matching between a supply based on controllable means of production (mainly fossil fuels) and an inelastic demand, has been progressively distorted by additional devices - most often public - aimed at compensating the failures of the basic model.

The European energy hyper-crisis reveals in 2022 that this model has **become dysfunctional** and **is no longer sufficient to guarantee the efficiency of electricity supply**, particularly in terms of decarbonization. Electricity prices have surged, due in particular to the unprecedented increase in the price of gas. The prices paid by companies have **weighed heavily on their competitiveness**, and on the purchasing power of European households.

It is therefore necessary to **reshuffle the current economic model to ensure an efficient and sustainable energy transition**. The **competitiveness of the industry and the decarbonization of the economy must be at the heart of the market design reform**.

Priorities

If most of the global electricity market design mechanism is efficient regarding the functioning of short-term markets, wholesale markets liquidity at all timeframes, and merit order, the priority objective for European public authorities is to **urgently define a new market model** according to the following new objectives :

- **Enable the achievement of the European objective of carbon neutrality in 2050**, which implies a **rapid electrification** to decarbonize the European economy. This objective must go hand in hand with security of supply in order to guarantee a permanent balance between electricity demand and supply.
- **Decorrelate retail electricity prices from market gas prices** to avoid exposure to gas price volatility caused by geopolitical risks and carbon constraints in Europe. This correlation has shown its limits as it does not favor investments choices in low carbon production assets, and proper benefits of those to end consumers. It is therefore necessary to dissociate consumers' electricity bills from wholesale gas prices, particularly through the development of efficient solutions such as **PPAs, bidirectional Contracts for Difference (CfDs), and forward contracts**.
- **Adapt the integration of renewable energies into the grids to maintain the economic balance** among decarbonized production methods, particularly nuclear power.

Main levers

To integrate these objectives, the *market design* must be modified via **2 operational levers** :

- **A new way to fix retail electricity prices** to meet final consumers' needs for stability and predictability. It would provide better visibility for industrial consumers by giving them a **long-term "price signal"** based on the total cost of current (and future) clean electricity production technologies. With regards to **huge gap in energy prices with third countries outside EU** which have secured access to very competitive power on a long term basis, **the French industry wishes to continue to benefit from long term predictable prices of decarbonized power**, notably through maximization of nuclear output at any time, in order to speed up the electrification of industrial processes, which will be the privileged way of industry decarbonization.
- **A strong and continuous financial incentive for the consolidation and development of production means, nuclear and renewable energies, between now and 2050** to address the growth of consumption in France as well as in our neighbors and the absolute necessity of a permanent balancing. This will require the **mobilization of very significant funding** through public support and public/private partnerships involving, in particular, major industrial consumers but also economic and financial players.

Operational solutions

Among the operational solutions, several modes of action should be favored, **combining market tools and regulatory mechanisms** to ensure a **segmented approach to final consumers** :

- **Contractualization**, to ensure the necessary visibility for the electrification of industrial processes. These **long-term contracts** (> 10 years) would allow large "energo-intensive" industrial consumers to participate in the life-time extension of existing capacities (nuclear and renewable capacities), and in the development of new means of production, based on project-based price formulas offering the industry the capability to **match competitive international price standards**. These contracts (eg *corporate PPAs*, consortium, or other types of *merchant contracts*...) could also involve financial partners to support companies facing difficulty in obtaining the necessary financing. For this segment of energo-intensive industries, contracting a **scalable block** is required : estimated to **50 TWh** in 2023 expanding to **75 TWh** in 2035-2040 (due to decarbonization), and approximatively 10% of the national power generation. As a counterpart, industrial companies able to invest in long term contracts could contribute to the funding of this block.
- **Regulation**, to secure massive investment required by **low carbon power generation projects (nuclear or renewable)**, and to allow domestic customers to effectively launch their projects to decarbonize their processes through **stabilized electricity prices**. Such prices would be based on formulas representing the structure of long term national production, for a multi-year period (> 5 years), based on *bidirectional Contracts for Difference*, and taking into account full costs assessed by the national regulator. This regulation would increase the depth of the local market allowing a direct benchmark with the main European markets, benefit from sustainable financial rules to remove the uncertainty linked to annual arbitrages, and cover a large part of the national production to ensure stable revenues for producers and avoid arbitrage by consumers.

The revised Market design shall also ensure investment in flexible assets like thermal generation, hydro, storage and Demand Side Flexibility, contributing as well to security of energy supply.

The prices spread now installed between Europe and the USA, or Asia, has strongly challenged for 18 months, and probably still for a long time ahead, the competitiveness of the European industry. **This imbalance must be urgently restored**. The reform of the Market design decided by the European Commission must be a corner stone of this restoring, particularly supported by the forthcoming *Green Deal Industrial Plan*.