INTERNAL ENERGY MARKET

In order to harmonise and liberalise the EU’s internal energy market, the European Union has adopted measures to build a competitive, customer-centred, flexible and non-discriminatory EU market with market-based supply prices. These measures address issues of market access, transparency and regulation, consumer protection, interconnections and security of supply. They strengthen the rights of individual customers, energy communities and vulnerable consumers, clarify the roles and responsibilities of market participants and regulators and promote the development of trans-European energy networks. Since the Russian invasion of Ukraine and the resulting energy crisis, the structure of the EU energy market has been undergoing profound structural changes.

LEGAL BASIS

Articles 114 and 194 of the Treaty on the Functioning of the European Union.

OBJECTIVES

In the energy sector, completion of the EU’s internal market requires: the removal of numerous obstacles and trade barriers; the approximation of tax and pricing policies and measures in respect of norms and standards; and environmental and safety regulations. The objective is to ensure a functioning market with fair market access and a high level of consumer protection, as well as adequate levels of interconnection and generation capacity.

ACHIEVEMENTS

A. Liberalisation of gas and electricity markets

During the 1990s, the European Union and the Member States decided to open their still monopolistic national electricity and gas markets gradually to competition.


The Third Energy Package, adopted in 2009, further liberalised the internal electricity and gas markets. It introduced several reforms, such as the separation of energy supply and generation from transmission networks ( unbundling), new requirements
for independent regulators, a European agency for the cooperation of national energy regulators (ACER), European networks for transmission system operators for electricity and gas (ENTSO-E and ENTSO-G) and enhanced consumers’ rights in retail markets. The package is the cornerstone of the internal energy market.

The Fourth Energy Package, also called the **Clean Energy for all Europeans** package, was adopted in 2019 and consisted of one directive (on electricity - Directive (EU) 2019/944) and three regulations (on electricity - Regulation (EU) 2019/943, risk-preparedness - Regulation (EU) 2019/941 and the EU Agency for the Cooperation of Energy Regulators (ACER) - Regulation (EU) 2019/942). It introduced new electricity market rules on renewable energies and investments, incentives for consumers, limits for subsidies to power plants such as capacity mechanisms. It also required the drawing up of contingency plans and increased ACER’s competences for cross-border cooperation.

The Fifth Energy Package or ‘**Fit For 55**’ was published in 2021 with the aim of aligning the EU’s energy targets with the new European climate ambitions for 2030 and 2050. After Russia invaded Ukraine in February 2022 and cut off the gas supply to Europe, the Union adopted **REPowerEU** with a view to rapidly phasing out all Russian fossil energy imports, introducing energy-saving measures, diversifying its energy imports, adopting exceptional and structural measures in electricity and gas markets and accelerating the introduction of renewables.

Currently, the Energy Union is based on the implementation of measures on energy efficiency, renewable energy, electricity market design, security of supply, internal energy market, interconnections, risk-preparedness and governance. The key acts in the package are:

The regulation on the internal electricity market (Regulation (EU) 2019/943), which defines the main market-based principles and rules for the operation of electricity markets. It covers market-based price formation, customers as active market participants, market-based incentives for decarbonised electricity generation, the progressive removal of barriers to cross-border electricity flows, the direct or indirect responsibility of electricity producers and the conditions for the creation of capacity mechanisms.

The directive on common rules for the internal market in electricity (Directive (EU) 2019/944) includes several provisions on consumer protection, including the free determination of electricity supply prices, market-based price competition between suppliers; protection of energy-poor and vulnerable household customers; and entitlement for final customers to electricity. Consumers can request the installation of smart electricity meters at no extra cost; households and microenterprises have access, free of charge, to at least one tool comparing the offers of suppliers, including for dynamic price contracts; they can switch suppliers free of charge within a maximum of three weeks and participate in collective switching schemes. End consumers with smart meters can request dynamic pricing contracts with at least one large supplier; they have the right to act as active customers without disproportionate or discriminatory technical requirements (i.e. sell self-generated electricity) and to receive clear, summarised contractual conditions.
The regulation on risk-preparedness in the electricity sector (Regulation (EU) 2019/941) introduces common rules on preventing and preparing for electricity crises to ensure cross-border cooperation and on crisis management. It also provides a common framework for the evaluation and monitoring of security of electricity supply. Under the Regulation, the European Network of Transmission System Operators for Electricity (ENTSO-E) is required to develop and propose a common methodology for risk identification, in cooperation with ACER and the Coordination Group for Electricity, to be approved by ACER.

The directive on common rules for the internal market in natural gas (Directive 2009/73/EC) introduces market-based and non-discriminatory rules for gas transmission, distribution, supply and storage. EU countries are required to unbundle transmission systems and system operators from vertically integrated energy companies. This means that companies that produce or supply gas or electricity cannot exercise any rights over a transmission system operator, and vice versa. EU countries (or the competent regulatory authorities in them) are responsible for organising non-discriminatory third-party access to transmission and distribution systems. To do this they publish tariffs.

The regulation on conditions for access to the natural gas transmission networks (Regulation (EC) No 715/2009) introduces rules for access to natural gas transmission networks, gas storage and LNG (liquefied natural gas) facilities. The regulation determines how tariffs for access to networks are set; the services to be offered; the allocation of capacity to gas transmission system operators (TSOs); transparency requirements and balancing rules; and imbalance charges on the market. EU countries or the competent regulatory authorities are responsible for organising a system of non-discriminatory third-party access to transmission and distribution systems based on published tariffs.

B. Further steps

The debate on the energy aspects of the Fifth Energy Package initially took place in the context of the high energy prices driven by the post-pandemic recovery. In 2021, the ‘Fit For 55’ package was adopted in 2021. Furthermore, revisions of the Gas Directive 2009/73/EC and the Gas Regulation (EC) No 715/2009 aim to establish the new regulatory framework for competitive decarbonised gas markets, including the new EU hydrogen market and methane emission reductions.

The debate on the Fifth Energy Package changed radically after the Russian invasion of Ukraine. The EU needed to react to the escalating world energy crisis, so it put forward several proposals for profound structural changes to its energy markets. In March 2022, the REPowerEU communication explicitly stated the EU’s intention to phase out its dependency on Russian fossil fuels. In May 2022, the REPowerEU plan operationally this aim with actions to save energy, diversify supplies, increase security of energy supply, replace fossil fuels and accelerate the roll-out of renewables. This was followed in July 2022 by new rules on coordinated demand reduction measures for gas - ‘Save gas for a safe winter’.

The urgency of the situation led Commission to put forward Council Regulation (EU) 2022/1369 on coordinated demand reduction measures for gas, setting a voluntary
15% target, which is mandatory in case of emergency, for reducing Member States’
gas consumption between 1 August 2022 and 31 March 2023, which entered into force
on 9 August 2022. In September 2022, it was followed by a new Council regulation
on an emergency intervention to address high energy prices and reduce energy bills
for European citizens and businesses. Between September and December 2022, the
Council adopted three exceptional temporary market measures: a voluntary overall
reduction target of 10% of gross electricity consumption between 1 December 2022
and 31 March 2023 and a mandatory reduction target of 5% of electricity consumption
in peak hours; a market revenue cap at 180 euro/MWh for electricity generators using
renewables, nuclear and lignite; and a mandatory temporary solidarity levy for the fossil
fuel sector.

On 14 March 2023, the Commission proposed a reform of the electricity market
design, notably the Electricity Regulation and Directive and the REMIT Regulation
(EU) No 1227/2011. The proposal incentivises long-term contracts, introduces rules on
access to renewables, renewable energy sharing, long-term contracts for consumers,
new support schemes for demand response and storage, protection of vulnerable
consumers, extension of regulated retail prices to households and SMEs during crises,
obligations for Member States to designate suppliers of last resort. In October 2023,
Parliament and Council adopted their negotiation positions and opened the trilogue for
the adoption of this legislation.

C. Energy market regulation: the EU Agency for the Cooperation of Energy
Regulators

The EU ACER was created in 2009 and has been operational since March 2011. ACER
is responsible for promoting cooperation between national regulatory authorities at
regional and European level and for monitoring the development of the network and
the internal electricity and gas markets. It also has the competence to investigate cases
of market abuse and to coordinate the application of appropriate penalties with the
Member States.

In June 2019, Regulation (EU) 2019/942 (the ACER Regulation) strengthened ACER’s
role in coordinating the actions of national regulators, especially measures for cross-
border areas at risk of fragmented national or regional decision-making. Under
the recast of the electricity regulation (Regulation (EU) 2019/943), ACER now has
increased responsibilities for drafting and submitting the final proposal for network
codes to the Commission and for influencing the regional electricity market (bidding
zone) review process. The regulation therefore introduced fees as an additional source
of funding to cover the costs of REMIT-related activities (‘REMIT fees’).

The European Union has also created cooperation structures for European Network
Transmission Systems Operators (ENTSOs) for electricity and gas in Regulation
create detailed network access rules and technical codes and ensure the coordination
of grid operation through the exchange of operational information and the development
of common safety and emergency standards and procedures. ENTSOs are also
responsible for drafting a 10-year network investment plan every two years, which is
in turn reviewed by ACER.
Regulation (EU) 2016/1952 improves the transparency of gas and electricity prices charged to industrial end-users by obliging Member States to communicate prices and pricing systems to Eurostat once or twice a year. Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency (REMIT) guarantees fair trading practices on EU energy markets.

D. Security of energy supply

Regulation (EU) 2019/941 on risk-preparedness in the electricity sector establishes measures to safeguarding the security of electricity supply in order to ensure the proper functioning of the internal market for electricity, an adequate level of interconnection between Member States, generation capacity and balance between supply and demand. Regulation (EU) 2018/1999 on the governance of the Energy Union sets an electricity interconnection target of at least 15% by 2030. Regulation (EU) 2017/1938 on security of gas supply establishes measures to safeguard the security of gas supply by allowing for exceptional measures in the event of emergency. This regulation was revised in 2022 after Russia's invasion of Ukraine. The EU adopted mandatory gas storage filling targets, requiring EU countries to fill their gas storage facilities to 80% of their capacity by 1 November 2022 and to 90% in subsequent years.

Regulation (EU) 2022/2576 boosts energy solidarity through better coordination of gas purchases, exchanges of gas across borders and reliable price benchmarks. It provides a legal framework for the EU Energy Platform to support EU countries in preparing for the winter of 2023-2024 and, in particular, filling their gas storage facilities. Directive 2009/119/EC aims to ensure security of oil supply, obliging Member States to maintain minimum oil stocks, equivalent to 90 days of average daily net imports or 61 days of average daily inland consumption, whichever of the two quantities is greater. The scope of the Gas Directive 2009/73/EC includes future gas pipelines to and from non-EU countries, with derogations for existing pipelines. Special provisions exist under Directive 2013/30/EU on the safety of offshore oil and gas operations.

E. Trans-European Networks for Energy (TEN-E)

TEN-E is a policy focused on linking the energy infrastructures of the Member States. As part of the policy, 11 priority corridors have been identified: three for electricity, five for offshore grids and three for hydrogen. There are also three priority thematic areas: smart electricity grid deployment, smart gas grids and a cross-border carbon dioxide network.

The TEN-E Regulation (EU) 2022/869 lays down guidelines for trans-European energy networks, identifying projects of common interest (PCIs) among EU countries, projects of mutual interest (PMIs) between the EU and non-EU countries, and priority projects involving trans-European energy networks. It ended support for new natural gas and oil projects and required mandatory sustainability criteria for all projects. New PCIs for energy and cross-border renewable energy projects are funded by the Connecting Europe Facility 2021-2027 for Energy (CEF-E), a funding instrument with a seven-year budget of EUR 5.84 billion allocated in the form of grants managed by the Climate, Infrastructure and Environment Executive Agency. The Commission draws up the list
of PCIs via a delegated act, which enters into force only if Parliament or the Council express no objection within two months following notification.

ROLE OF THE EUROPEAN PARLIAMENT

In adopting the legislative package on internal energy markets, Parliament has strongly supported transmission ownership unbundling in the electricity sector as the most effective tool to promote investment in infrastructure in a non-discriminatory way, fair access to the grid for new entrants, and transparency in the market.

Parliament has also stressed the importance of a common European view of mid-term investments (indicative European 10-year plan focused on interconnections); greater cooperation between regulatory authorities, Member States and transmission system operators; and a strong process of harmonisation of network access conditions. On the initiative of Parliament, special importance was placed on consumer rights, which were part of the deal reached with the Council: the resolutions insisted on increasing consumer rights (change of suppliers, direct information through smart meters and efficient treatment of complaints made to an energy ‘ombudsman’).

Parliament also obtained recognition of the concept of ‘energy poverty’. It strongly supported the establishment of ACER, stressing that it had to be granted the necessary powers to overcome the issues that cannot be solved by national regulators and which hamper the integration and proper functioning of the internal market. Since Russia’s invasion of Ukraine, Parliament has adopted several resolutions on phasing out Russian fossil fuels and the following key positions:

— On 14 September 2023, Parliament confirmed the start of the negotiations on the electricity market. It wants to strengthen consumer protection against volatile prices, guarantee the right to choose between fixed and dynamic price contracts and prohibit the adoption of unilateral changes to the terms of contracts. It also called for a ban on suppliers disconnecting electricity supplies, including during disputes, and the prohibition of any requirement for vulnerable customers to use prepayment systems.

— On 5 October 2022, Parliament adopted a resolution on energy prices, calling again for an immediate and full embargo on Russian oil, coal, nuclear fuel and gas and stressing its position against energy the disconnection of vulnerable consumers. It called for an appropriate price cap for imports of pipeline gas, new measures to tackle speculation, a cap on revenues of inframarginal electricity producers in favour of consumers and businesses and tasked the Commission with analysing the decoupling of electricity and gas prices. Finally, it regretted that the Commission had chosen Council regulations as the legislative tool to tackle the energy crisis.

— On 19 May 2022, Parliament adopted a resolution on the social and economic consequences for the EU of the Russian war in Ukraine, calling on the Member States to urgently adopt the sixth package of sanctions. It reiterated its call for an immediate and full embargo on Russian imports of oil, coal, nuclear fuel and gas.
— On 7 April 2022, Parliament adopted a resolution calling for an immediate and full embargo on Russian imports of oil, coal, nuclear fuel and gas, for Nordstream 1 and 2 to be completely abandoned and for a plan to continue ensuring the EU’s security of energy supply in the short-term;

— On 1 March 2022, Parliament condemned Russia’s illegal, unprovoked and unjustified military aggression against Ukraine, as well as Belarus’s involvement in this aggression. It called for the scope of sanctions to be broadened and for them to be aimed at strategically weakening the Russian economy and industrial base, especially the military-industrial complex. In particular, it called for restrictions on the import of key Russian export goods, including oil and gas.

For more information on this topic please see the website of the Committee on Industry, Research and Energy (ITRE).

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11/2023