

European electricity markets – policy deficiencies, design deficiencies, and opportunities for policymakers

Prof. Dr. Marc Oliver Bettzüge

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Assessment

The main elements controlled on the European level (competitive wholesale markets, EU-ETS) are the cornerstones of the European regulatory approach and are, with minor issues remaining, well-designed by themselves.

However, due to market distortions mostly induced by the individual member states' policy measures (wholesale) and due to a lack of visibility beyond 2020 (EU-ETS), their well-functioning is more and more put into question.

Key challenges on the EU level, therefore, are

- the clarification and definition of objectives for 2020-2030 (following the recent suggestions by the EU-Commission),
- the strengthening of the existing pillars of IEM and EU-ETS, and
- further progress in terms of effectively and efficiently coordinating national regulation.

Key suggestions

A redrawing of European electricity market design can only be effective as a joint effort between the EU and the member states.

Therefore, it would be helpful to explicitly rethink subsidiarity between the EU and member states for the electricity sector. Article 194 of the Lisbon Treaty does not provide a satisfactory answer to this challenge, if only, because it is not sufficiently precise.

Harmonisation of energy policies and corresponding market design will become the more important the more electricity markets are integrated between the respective member states.

One of the most important starting points would be an integration of energy policies *and* market designs between the countries of the so-called 'Pentalateral Forum'.

Challenges

In general, there is substantial economic opportunity from a more European approach not only to electricity market design but also to energy policy in general.

Two related *political* issues emerge as central aspects to this task:

- the role and the definition of appropriate policy objectives on the EU- and member state level, as well as
- the division of competencies between the EU and the MS.

Therefore, the issue of improving the functioning of European electricity markets should *not* be regarded as primarily an *economic* issue of optimal market design.

Rather, *political* issues have to be solved prior to the question of appropriate market design.

Thank you very much for your attention.

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