



**Local & Regional
Europe**

Electricity Market Design Reform: Enhancing predictability and investment opportunities for local and regional climate transitions

CEMR Position Paper on the revision of the regulations and directives on:

- The internal market for electricity - Regulation (EU) 2019/943,
- Common rules for the internal market for electricity - Directive (EU) 2019/944,
- The promotion of the use of energy from renewable sources - Directive (EU) 2018/2001,
- A European Union Agency for the Cooperation of Energy Regulators - Regulation (EU) 2019/942

“Europe’s municipalities and regions welcome the reform of the electricity market design. We need predictable investment signals and more opportunities for long-term contracts to drive renewable energy investments and ensure affordable delivery of public services. Local and regional governments are key enablers of an inclusive European Green Deal and wish to play a constructive role via efficient multi-level governance.”

— Belinda Gottardi, Mayor of Castel Maggiore and CEMR spokesperson on Climate and Energy

Context

On 14 March, the European Commission released its proposal for a regulation to improve the Union’s electricity market design.¹ The [Council of European Municipalities and Regions](#) (CEMR) considers that the establishment of an internal market for electricity has on the whole engendered positive effects and a functioning market, which has also entailed lower competitive prices.² However, we recognise the need for reform to address the decarbonisation of the electricity sector and the gas shortages stemming from Russia’s weaponisation of energy in its war against Ukraine.

As important consumers that provide critical public services to citizens, local and regional governments (LRGs) wish to be a key partner in this reform. Furthermore, they also function as municipal utilities as well as producers and sometimes even as distributors of electricity. LRGs also play an essential role in ensuring security of supply and in driving decarbonisation at subnational levels.

In this paper, we will outline our fundamentals for developing future technical contributions and amendments in view of the negotiations at the European Parliament and Council of the EU on the revision of the electricity market design. A more general position paper on energy and climate has already been adopted by CEMR: [Fit for 55: enabling local and regional climate transitions](#).

CEMR supports ambitious climate and energy targets in line with the goal of climate neutrality by 2050 for EU Member States as well as the non-EU countries where EU legislation is applicable. We support electricity market reforms that seek to provide suitable incentives for the development of renewable energy and an increase in energy efficiency and flexibility to boost energy security, competitiveness and climate action, as well as to counter high energy costs and social vulnerability.

- **Adequate pricing** of carbon and energy should be made a policy cornerstone along with **technology neutrality and a holistic view of energy systems** in order to reflect the differing conditions at local, regional and national levels.
- **Local and regional authorities have a central and exemplary role to play** in increasing energy efficiency and renewable energy through local and regional planning, investments and public procurement, all which can be used as tools for enhancing sustainability. All of this underscores the vital importance of **involving local and regional governments** in both the planning and implementation of the directives.

¹ European Commission (2023), Proposal for a regulation of the European Parliament and of the Council amending Regulations (EU) 2019/943 and (EU) 2019/942 as well as Directives (EU) 2018/2001 and (EU) 2019/944 to improve the Union’s electricity market design, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023PC0148>

² ACER (2022), ACER’s Final Assessment of the EU Wholesale Electricity Market Design, available at: <https://www.acer.europa.eu/sites/default/files/documents/Publications/ACER%26%23039%3Bs%20Final%20Assessment%20of%20the%20EU%20Wholesale%20Electricity%20Market%20Design.pdf>

CEMR's key messages

1. Facilitate local and regional governments' work driving investments in renewable energy

CEMR stresses the **necessity of increasing electricity production** and energy storage capacities within the EU to ensure security of supply and lower prices in a functioning market. This can also contribute to further decreasing levelised costs of energy (LCOE) for renewable energy sources (RES).³ CEMR endorses an **enabling framework** for the rollout of renewable energy sources and energy efficiency measures, in line with the Fit for 55 package and parallel legislation on energy directives (RED, EED, EPBD).

The EU and its Member States need to ensure that the relevant preconditions for investment exist, including financial terms, permitting, grid interconnections and storage. In many cases, investment and uptake may call for facilitation through support schemes, preferential loans, guarantees and technical assistance.

In some other cases, Member States will need to step in with conditions that guarantee prices and compensate for the risk of oversupply in order to reduce the risks for investors. Direct price support schemes in the form of two-way contracts for difference can be useful tools for investment as long as they do not undermine competition between electricity suppliers and do not eliminate incentives to reduce consumption or simply shift it to low-price periods. The same considerations apply to Power Purchase Agreements (PPA) between producers and large customers such as enterprises.

Under the new RED directive currently being finalised, **local and regional governments have important roles to play** in finding suitable locations for production, distribution and transmission, as well as fulfilling their responsibilities speeding up permitting, managing spatial planning, investing by way of their own energy companies and enabling consumers/energy communities.⁴ The Council adopted an emergency regulation pertaining to this late last year.

When considering investment in power generation, there must also be **relevant scope for other societal interests**. For instance, in the upcoming trilogue negotiations of the recast Energy Performance in Buildings Directive (EPBD), any mandatory requirements for solar PV should primarily target new buildings and less sensitive existing buildings and areas such as industrial buildings. It is vital that local and regional governments be able to protect their cultural heritage to ensure citizens' acceptance of the rollout of renewable energy.

³ International Energy Agency (2020), "Low-carbon generation is becoming cost competitive" in Projected Costs of Generating Electricity 2020 Edition, pp. 13, 14, available at: <https://iea.blob.core.windows.net/assets/ae17da3d-e8a5-4163-a3ec-2e6fb0b5677d/Projected-Costs-of-Generating-Electricity-2020.pdf>

⁴ Energy communities organise collective and citizen-driven energy actions that help pave the way for a clean energy transition, while moving citizens to the fore. They contribute to increasing public acceptance of renewable energy projects and make it easier to attract private investments in the clean energy transition. At the same time, they have the potential to provide direct benefits to citizens by increasing energy efficiency, lowering their electricity bills and creating local job opportunities. Source: https://energy.ec.europa.eu/topics/markets-and-consumers/energy-communities_en. However, they can be hard to distinguish from utilities owned by citizens through local, regional or national governments, suggesting the need for fair conditions regardless of the different forms of ownership.

2. Make electricity prices less dependent on short-term fossil fuel costs

CEMR calls attention to the importance of **enabling a larger share of long-term contracts**, for individuals and smaller consumers as well, so as to be able to hedge the risks of high and volatile prices. This is especially critical until sufficient new production has been established. There are several ways this can be achieved: in addition to PPA, Contracts for Differences (CfD) and futures trading for larger actors, suppliers can be required to offer consumers alternatives with longer-term agreed prices.

3. Keep emergency measures (short-term market interventions) as “structural” features of the Electricity Market Design

CEMR recognises the advisability of keeping some emergency measures during a period of continued high electricity prices. This can consist of price caps or taxes on windfall profits, along with consumer-directed reimbursements. In order **to avoid disincentivising new investment** in RES, any such interventions should only target fossil and other energy production that is to be phased out. Furthermore, their formulation should not result in any disincentivisation in terms of **energy savings and user flexibility**.

4. Encourage better consumer empowerment and protection

CEMR endorses an enabling framework for the rollout of renewable energy sources and energy efficiency measures, with special consideration for **vulnerable consumers**. For the most part, this can be achieved through support schemes, loans or technical assistance. In addition, CEMR recalls that regional and/or municipal energy providers have often already taken on the role of a “**supplier of last resort**” protecting vulnerable households and enterprises. As such, these suppliers of last resort should have recourse to sufficient financial compensation mechanisms through national or European funding.

5. Promote efficient multi-level governance solutions and financial support

Cooperation, taking the principles of subsidiarity and multilevel governance into account, is an important success factor, irrespective of whether it involves LRGs or other levels of governance. It can be supported through the Covenant of Mayors and other relevant platforms and partnerships at EU, national and regional levels. It enables synergies, exchange of knowledge and dissemination of **good practice**.

Implementation at local and regional levels needs to be accompanied by **appropriate financial resources** and supportive measures, steering clear all the while of over-regulation and increased administrative burdens.

Further information

CEMR has also contributed to the consultation on the revision of the EU's electricity market design:

- [CEMR's contribution](#)

CEMR's Position Paper on the energy directives

- [Fit for 55: enabling local and regional climate transitions](#)

CEMR's press release on the permitting of renewables

- [Faster permitting of renewables: 'Local governments must be fully involved at all stages!', claims CEMR](#)

CEMR has also compiled around 70 examples of good practices:

- [Local and regional authorities' good practices and cooperation on energy and climate action](#)

About CEMR

CEMR is the broadest organisation of local and regional governments in Europe, with over 60 national associations of municipalities and regions from 41 European countries. Together, its members represent some 130 000 local and regional governments. CEMR's objectives are twofold: to influence European legislation on behalf of local and regional governments and to provide a platform for exchange between its member associations and their elected officials and experts. CEMR is also the European section of United Cities and Local Governments, the worldwide organisation of local government.

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www.cemr.eu

Contact:

Andreas Hagnell, Technical chair, CEMR Expert Group on Energy and Climate, Senior Adviser on Energy and Environment, Swedish Association of Local Authorities and Regions

Email: andreas.hagnell@skr.se

Phone: +46 8 452 7866

Marlon Hilden, Coordinator & Policy Officer on Climate, Energy and Sustainable Finance
Council of European Municipalities and Regions

Email: Marlon.Hilden@ccre-cemr.org

Phone: +32 221 38 699