



MINISTRY FOR ECONOMY AND DIGITALIZATION
MINISTRY FOR THE ECOLOGICAL TRANSITION
AND THE DEMOGRAPHIC CHALLENGE

Mr. Frans Timmermans
Executive Vice-President for a European Green Deal
European Commission

Ms. Margrethe Vestager
Executive Vice-President for a Europe Fit for the Digital Age
European Commission

Mr. Paolo Gentiloni
Commissioner for Economy
European Commission

Ms. Kadri Simson
Commissioner for Energy
European Commission

Madrid, 23 February 2022

Dear Executive Vice-Presidents, Dear Commissioner,

The present letter wishes to convey our deep concern with regard to the sustained surge in energy prices that, coupled with the contagion effect of current geopolitical tensions, can have a structural impact on the economic recovery and our decarbonisation strategy. For this reason, and for the sake of maintaining our constructive approach, we wish to propose a set of measures that we consider necessary to address the structural weaknesses of the electricity market, both in the short and long term.

This situation of extraordinarily high-energy prices will probably last longer than expected a few months ago, when the European Commission presented its toolbox. Geopolitical tensions could further increase prices in international energy markets. This has become a top macroeconomic issue for all Member States and we need to upgrade our actions on the regulatory front.

In our view, the current situation calls for new and powerful tools for Member States. According to announcements made by Member States, the budgetary cost is approaching the amount of



Next Generation funds. In the case of Spain, the fiscal cost of protecting households and companies, especially the most vulnerable, exceeds EUR 7 billion. This demonstrates the significant effort that member states are making, allocating very large amounts of public money to patch a problem which requires more structural solutions.

Measures proposed so far are not sustainable in time. They impose a very high cost and depend on the different budgetary capacity of Member States, which risks damaging the European Single Market and distorting competition. This translates into an uneven treatment between European citizens and European firms, harming competitiveness, cementing market power of incumbents and damaging the most vulnerable people.

Furthermore, as the cost of energy continues to grow, net financial flows are going to fossil fuel exporting countries to the detriment of European economies and jeopardizing the impact of Next Generation EU funds in transforming our economies towards net zero. In 2021 the electricity market price in Spain stood at a record 112 EUR/MWh, despite the fact that renewable generation reached its historical maximum, representing 45 % of the total production. We need to ensure that citizens benefit from cheap and clean energy and avoid social costs associated with the green transition.

Under the given circumstances, we welcome the possible adoption of a new toolbox with additional and extraordinary measures, which may be triggered in specific market circumstances, to transfer rents from power generators to consumers and to limit the contagion effect of gas prices on electricity prices.

First, the formation of wholesale electricity prices should be decoupled from the high volatility of gas prices by having an “emergency brake” that would split the price-setting mechanisms of electricity markets. For instance, introducing a price cap to electricity generated from natural gas sources with an ex-post mechanisms to guarantee cost recovery of gas-fired power plants.

Second, we welcome that the Commission is considering to open the discussion on windfall profits from high natural gas prices under the current electricity market design. However in order to be effective, the application of intra-marginal profit fiscal measures should be designed in a way that allows a quick response, for instance through a recommendation to the Member States or an EU decision that would be immediately effective and operational in the second quarter of 2022.

Finally, we should keep encouraging long-term contracts, providing the adequate financial incentives for that purpose. The European Investment Bank (EIB) could play a relevant role by granting a public guarantee to de-risk the necessary power purchase agreements (PPAs), in



a similar way to what Spain is currently doing via the recently created FERGEI (Fondo Español de Reserva para Garantías de Entidades Electrointensivas). Moreover, the EIB could also support the acceleration of the transition at local level, by facilitating access to finance by private banks to fund investments in solar roofs, self-consumption, new local energy communities or the development of micro-plants. These measures could favour social participation and empowerment, reduce consumer's bills and thus ensure that consumers start to share the benefits of the energy transition.

However, the need to reform does not end here. Additional measures should be adopted for the long run. It is time to open a broad discussion including all the stakeholders in order to analyze and, if appropriate, raise concrete recommendations to improve the European regulatory framework. We need to ensure that the electricity markets convey the right price signals to invest in decarbonisation and allow consumers to benefit from the lower cost of renewables entering the grid. This new regulatory framework shall be "future-proof", under a situation of high renewable penetration in the generation mix.

We hope that we have adequately conveyed our vision of the situation, as well as our concerns and possible solutions. We remain at your disposal to discuss and work together in the adoption of the most effective solutions to achieve European Union's climate objectives, while ensuring the competitiveness of our companies and the well-being of our citizens.

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