CEER views on the Draghi Report
December 2024

CEER submits herewith its preliminary assessment of the Draghi Report[1], providing a nuanced look at key issues related to the future of European Competitiveness and, in particular, the future of the EU energy sector, with a thorough reflection on the challenges facing the European Union. One of the most relevant challenges identified for the energy sector is aligning decarbonisation with competitiveness. The energy crisis and geopolitical tensions, coupled with the ambitious goals for the energy transition, led to significantly higher energy costs in Europe, which hampers European competitiveness. At the same time, the effort to decarbonise continues to be a necessity to which CEER is committed.

CEER notes that while many of the Draghi Report's proposals appear to be shaped largely by the recent energy crisis, European energy regulators consider that the main challenges posed by decarbonization and climate change in the next 20 years should be taken into consideration in the general framework for guiding the continuous development of Europe's energy sector[2]. While we observe that the markets have proven to be resilient, structural factors continue to raise challenges. To address disadvantages related to high energy costs in Europe, the increased use of forward wholesale energy markets and flexibility tools will help to reduce price levels as well as mitigate volatility and both will contribute to foster the competitiveness of Europe's industry.

CEER strongly advocates for a full implementation of the recently updated and renewed market and regulatory frameworks for electricity and gas, namely the Electricity Market Design (EMD and REMIT II) and the Gas and Hydrogen Decarbonisation packages before considering further legislation and rules. This will contribute to achieving the transition towards a decarbonised industrial based economy. Frequent legislative changes could harm market confidence, deter investment and jeopardise security of supply.

For CEER, the real challenge of the future lies in investing in the system in an optimal way and further achieving the integration of the European energy markets in the pathway towards decarbonization.

Moving towards a decarbonised hydrogen and gas sector with a balanced and integrated approach

As regards the **gas proposals** dealing with **spot market sourcing, joint procurement, strategic infrastructure, and cost-reflective pricing**, CEER believes we must consider pathways to improve market stability and economic efficiency where needed, while preparing for an integrated, low-carbon energy future. Our insights below offer a strategic foundation for evolving the EU's gas sector in a way that aligns with our broader European energy transition goals.

The **role of gas in the future energy mix** should be based on system needs, considering short term sourcing as a complement to long-term sourcing. Starting with the spot market, CEER recognises that it plays a role in promoting economically efficient decision-making and providing a clear framework for comparing energy carriers and quantifying environmental impacts. Although, much of today's market still relies on long-term contracts, it is essential to **preserve the spot market's role,** while ensuring also efficient long-term price signals in forward markets.

Building on this logic, the proposal to **reinforce joint procurement could become redundant** if the industry indeed shifts more towards long-term sourcing strategies. Joint procurement, though valuable, may be less critical in a market already moving towards more stable, long-term contracts and leveraging

[1] The future of European competitiveness, September 2024

[2] See ACER-CEER Paper on Challenges of the Future Electricity System, 2024

delivered ex-ship LNG imports at European terminals. Currently, a **voluntary joint purchasing platform** exists, and it serves as a beneficial tool when utilised on a non-compulsory basis. Making it mandatory would likely create more administrative costs than value. Any initiatives to create a single EU buyer should strictly adhere to EU competition rules and respect the functioning of the internal energy market, ensuring they supplement rather than obstruct a well-operating market. In order to preserve a well-functioning market and in line with Art. 5 of the Gas Directive (EU) 2024/1788 which is referring to the past European Emergency Regulations, any "temporary targeted public interventions in price setting" should therefore only be applied in exceptional situations and be limited to emergency situations to protect consumers as was the case with the past European Emergency Regulations.[3]

Turning our focus towards enhancing **Europe's infrastructure strategy** to better support the evolving energy landscape, CEER sees value in a comprehensive approach to optimising, repurposing and decommissioning existing gas infrastructure as part of a broader system-wide optimisation. By making full use of existing assets, we can reduce infrastructure costs while planning for the future. This strategy also acknowledges the emerging role of alternative solutions, such as hydrogen, and the need for thoughtful consideration around building new pipelines versus repurposing sections of the existing infrastructure that may otherwise become redundant. **Effective infrastructure planning reflecting cost efficiency will require an integrated, coordinated approach** that leverages all parts of the energy system - balancing energy carriers, distribution, transmission networks, and supply and demand in cohesive, future-proof scenarios.

Finally, a reflection on the proposal for a **gas pricing mechanism that better reflects the diverse conditions of gas sourcing and cost-reflectivity of network tariffs**. CEER would like to recall that any adjustments – if needed – to the EU's gas network tariff design should be rooted in an evaluation by the European Commission or in voluntary initiatives aligned with the newly endorsed Gas Decarbonisation Package. Network tariff structures should avoid subsidising specific technologies or users, instead fostering a level playing field that supports fair competition to ensure that network tariffs serve as unbiased instruments within an integrated energy system.

Taken together and bearing in mind the qualifications listed above, the proposals reflect an intent to balance the role of market mechanisms with regulatory measures, seeking efficiency and long-term stability in the EU's gas sector. This balance is important for a sustainable pathway forward, adapting Europe's gas infrastructure to meet future needs, while safeguarding against potential risks in the energy market. The recently adopted Gas Decarbonisation Package serves exactly this purpose.

Fostering efficient investment and forward markets to deliver an electricity system fit for the energy transition

Regarding the **electricity proposals** in the Draghi Report, CEER emphasises the need for balanced, forward-looking regulatory and market approaches that align with Europe's energy transition goals. While recognising the strengths of the current frameworks, CEER highlights areas for improvement to ensure efficiency, equity and investment certainty.

Firstly, the existing **network development process** combines a pan-European approach, which identifies infrastructure needs through EU scenarios and methodologies, with a bottom-up system, where projects are proposed from unilateral or bilateral perspectives. CEER notes first that **the needs assessment performed at pan-European level should be further improved, made more transparent, reliable and replicable**. Moreover, CEER calls for a **complementary EU planning framework to address regional infrastructure needs with an EU-wide dimension**. This includes empowering regional or EU entities to propose alternative infrastructure solutions and enabling NRAs to require TSOs to develop concrete project proposals to close identified gaps. Coordination between electricity grids and other energy sectors, such as gas and hydrogen, must also be strengthened for a

[3] Acc. to Art. 4 of the Gas Directive (EU) 2024/1788, by way of derogation from the principle of market-based supply prices, Member States may apply public interventions in the price setting for energy poor or vulnerable household customers subject to precisely defined restrictions.

more integrated approach. Also, in light of the challenges caused by the nature of decarbonisation investment projects, NRA's role and competences should be reinforced regarding the impact of infrastructure investment expenditures.

An inter-related issue concerns **cost-sharing for cross-border infrastructure**, which is currently fragmented across three mechanisms: CBCA, inter-TSO compensation, and congestion income distribution. These fall short of equitably distributing costs and benefits. Regulators are committed to conducting a holistic review to create a more comprehensive framework that reflects the EU-wide benefits of infrastructure and addresses the diversity of electricity flows, whether internal or cross-border. A consolidated approach will ensure fairer cost allocation. In particular, special attention should be given to the development of a clear and robust framework applicable to offshore infrastructure investments.

CEER is equally aware that **massive investments are required to achieve a decarbonised electricity system**. CEER therefore emphasises the importance of regulatory certainty and predictable frameworks to attract these investments at the lowest cost.

Mechanisms like Contracts for Difference (CfDs) can address investment stability gaps, but Member States must carefully design them to minimise market distortions. CEER recommends that regulators develop best practices for CfDs, flexibility support schemes and capacity mechanisms to harmonise their design across Member States and ensure they complement market dynamics.

CEER further reaffirms the broad consensus that **marginal pricing is the most efficient method for auction-based markets like day-ahead and intraday trading**. This approach ensures optimal dispatch and cross-border capacity usage. As for gas, in line with Article 66(a) of the Directive (EU) 2024/1711 exceptionally certain measures can be envisaged to protect consumers during an electricity price crisis.[4] However, CEER is cautious about introducing revenue caps for inframarginal technologies during crises, as they could undermine market certainty. CEER also notes that **there is little evidence to suggest that a new regulatory framework for PPAs is necessary**, as they have been successfully implemented in the past. Moreover, CEER also notes that there is **work in progress** in this area and further instruments to enhance the efficiency of forward and long-term markets are part of the EMD.

CEER supports integrating distributed generation, demand response and storage into the market in order to strengthen system resilience. Simplifying the capacity mechanism framework while enhancing its cross-border dimension is also a priority. However, CEER cautions against introducing "standard compensation mechanisms" for industrial demand response, which could disrupt internal market efficiency. Rather, CEER recommends a market-based renumeration fostering the use of flexibility services by industrial users thus reducing energy costs and boosting competitiveness.

We therefore underscore the importance of **building on existing frameworks and ongoing initiatives**, avoiding unnecessary overhauls that could disrupt progress. A coordinated, technology-neutral approach is essential to advancing market efficiency, fostering efficient investment and supporting Europe's energy transition while maintaining fairness and predictability for all market participants as well as affordability for all consumers.

Market supervision that reflects the specificities of the energy sector

The proposals put forward for **wholesale market supervision largely duplicate existing laws**, while the suggested EU-level coordination body for energy and derivatives regulators is unnecessary and unjustified. Likewise, revisiting the 'ancillary activities exemption' offers little value, as current provisions are sufficient. Market supervision, where needed, should not impose additional financial regulation on energy derivatives given the specificities of energy wholesale markets, as these areas are already closely

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linked. Instead, a balanced, pragmatic approach rooted in existing rules will better uphold market stability and trust.

CEER underlines that many proposals related to wholesale market supervision have become obsolete with the adoption of REMIT II, which addresses key institutional and governance issues.

Preserving the effectiveness of the current governance to manage a multi-level energy system

Finally, CEER raises serious **concerns about the push for centralised energy governance** in the Report, warning that it risks undermining subsidiarity, ignoring national specificities and disconnecting EU-level decisions from citizens' realities. Effective governance must balance centralised and decentralised approaches, respecting constitutional limits and avoiding overreach.

Centralisation as such, and overall changes in the set up, would require a fundamental overhaul of the institutional framework governing key players like ACER and NRAs, TSOs and NEMOs. CEER emphasises that **subsidiarity is essential** to ensure collaboration without eroding trust or efficiency.

The Report's criticism of the current system which still reserves, for historical reasons, a number of tasks and responsibilities of a regulatory nature to "private bodies with commercial interests" can only be supported by independent regulators acting solely in the public interest.

For CEER, the real challenge of the future lies in investing in the system in an optimal way and further achieving the integration of the European energy markets in the pathway towards decarbonization. Regulators reaffirm their strong commitment to fostering a more innovation-friendly regulation that ultimately delivers benefits including competitive prices to all European consumers and are willing to provide their technical and regulatory competence and experience to the upcoming discussions.