EU Energy Markets and Energy Prices

OCTOBER **2021**

A well-functioning EU energy market delivers **high-quality energy services** and products to **all Europeans**. An integrated market with cross-border infrastructure provides a **shield against price and supply fluctuations**, and a better deal for consumers. It allows Member States to exchange electricity with their neighbours in the most **economically and environmentally efficient way**.
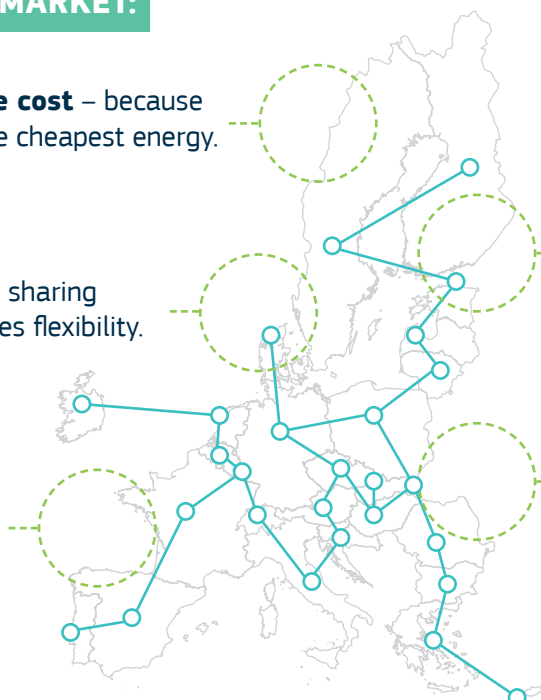
How does the EU internal energy market function?

AN INTERCONNECTED MARKET:

Provides energy at **affordable cost** – because operators compete to offer the cheapest energy.

Ensures **security of supply** - sharing energy across borders increases flexibility.

Reduces **price differences** between Member States and price volatility.

Boosts **competitiveness** – competing energy retailers innovate, develop new business models, and invest in renewables.

Supports the **green transition** – connecting more renewable energy sources over a wider area.

The EU market **keeps down the costs of the clean energy transition**, enabling Member States to share reserves and flexibility, rather than needing to invest alone. More electrification in our energy system is an important part of the green transition, as it's the easiest way to increase the share of renewable energy we use. Renewables have become the cheapest electricity source available in Europe, and the number of days when they are the sole supplier of the grid is growing each year.

THE MARGINAL PRICING MODEL FOR ELECTRICITY

The internal energy market allows for the cheapest energy to be deployed first, with more expensive sources added depending on demand.

This model provides **efficiency, transparency and incentives** to keep costs as low as possible. There is general consensus that the marginal model is the best for liberalised electricity markets. Only the wholesale price is set at EU level based on this marginal price model.

When there is **sufficient supply of renewables** to meet demand, prices are at their lowest as other power sources don't need to be switched on.
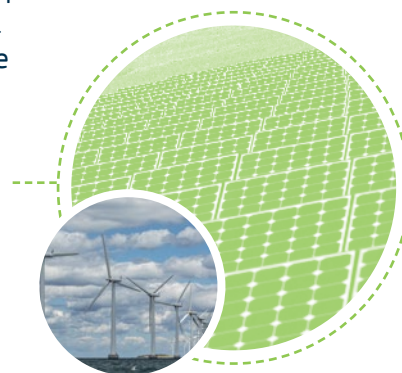
When **more energy is needed**, more expensive power plants need to be switched on, and they set the price which all suppliers receive. At the moment, gas-powered plants are still needed to generate electricity across Europe, and they are setting the price.

CONSUMERS CAN CHOOSE

Among different suppliers and contracts. Switching suppliers should be free of charge for households and small businesses, and take no longer than three weeks – and even 24 hours if smart meters are rolled out.

In 2019-2020, over **15%** of consumers switched contracts in Belgium, Ireland, the Netherlands and Portugal.

What are the components of our electricity bill?

A consumer's electricity bill in Europe is made up of three elements, each accounting usually for roughly one third of the price: electricity generation (the cost of making power), network charges (the cost of delivering power), and taxes and levies. The exact composition of the bill varies from one Member State to another.

Household price components in 2020
in %

● Taxes and levies ● Network ● Energy
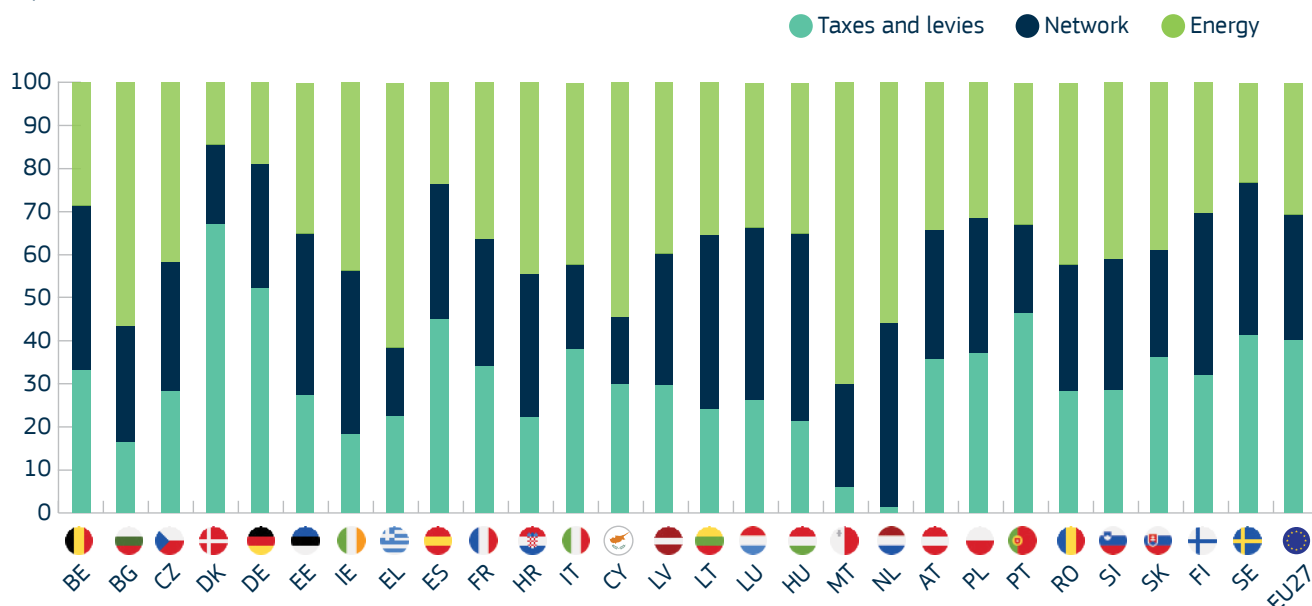
Source: Eurostat.

Why does the global gas market impact European electricity bills?

Electricity produced from gas usually sets the price in European markets. The current gas price rise results primarily from supply shortages and higher demand for gas in global markets due to the economic recovery in the aftermath of COVID-19.

Impact on the cost of electricity

Increase caused by rise in gas prices: about €90 / MWh

Does carbon pricing impact European electricity bills?

The EU Emissions Trading System does not levy any fees directly from consumers, but the cost of buying emission allowances is usually passed on to consumers by energy companies. The rising carbon prices over the last year have affected wholesale electricity prices, but the effect of the higher gas price is currently 9 times stronger than that of the ETS price.

Emissions Trading System contribution: about €10 / MWh for electricity produced from gas