European Data Centre Association

Position paper - Reform of the EU's electricity market design

May 2023

The European Data Centre Association (EUDCA) represents the European colocation data centre operator community. As one of the founding members of the Climate Neutral Data Center Pact, EUDCA promotes that renewable energy is widely accessible to data centre operators across Europe. The electricity market is crucial to make long-term planning towards climate neutrality possible.

The ICT sector is the most important off-taker of renewable PPAs: it is estimated that ICT companies account for half of all corporate renewable PPAs worldwide.[1] European data centres are no exception, and our data centre operators have made PPAs the cornerstone of their decarbonisation strategies.

Overall, EUDCA supports the objectives of the reform, such as the increased rollout of Power Purchase Agreements (PPAs) and the integration of renewables to the grid which are necessary to meet the EU's decarbonisation goals. However, EUDCA is concerned that the Commission's proposal may not go far enough to support the development of PPAs for smaller market players and increase liquidity in long-term markets.

Article 19a: Power Purchase Agreements (PPAs)

EUDCA supports the Commission's goal to facilitate the rollout of PPAs across Europe. However, several points remain unaddressed by the proposal.

From experience, EUDCA's smaller members have had difficulties contracting PPAs, and numerous barriers make them only available to larger market players. We have identified the pooling of demand to be an adequate tool to enable smaller market players to enter PPAs, and the Staff Working Document accompanying the proposal further reveals that this tool was largely favoured by stakeholders. It is regrettable that the Commission did not heed stakeholders' recommendations on this matter, and we would encourage the EU institutions to reconsider this in the upcoming negotiations and explicitly include it in the final text.

In addition to the pooling of demand, we also encourage legislators to include the possibility of pooling supply to facilitate the development of PPAs by groups of smaller producers.

Considering that different Member States have differing renewable energy resources with different market prices available, it is important to facilitate cross-border PPAs to successfully develop the PPA market in Europe. This enables market players from regions with small production capacities to contract products across borders, as supply might be insufficient in their own Member States. While lacking infrastructure for transmission, physical cross-border PPAs come with additional risks in terms of the price-volatility of transport costs. At present, the transmission system operators cover only one-

[1] IEA (2022), Data Centres and Data Transmission Networks, IEA, Paris https://www.iea.org/reports/data-centres-and-data-transmission-networks, License: CC BY 4.0

year periods of transmission rights, while PPAs span over far greater periods. EUDCA is convinced that the increase in the duration of long-term transmission rights decreases the risks of cross-border PPAs and increases their liquidity. The duration of long-term transmission rights should ideally be at least 10 to 20 years. This is an important precondition for a liquid cross-border PPA market, once sufficient physical cross-border capacity is developed.

Finally, the proposal should require Member States, when determining the categories of customers targeted by guarantee schemes for PPAs, to take into consideration the contribution of industries to the EU's climate targets. In particular, those industries that create economic growth while decoupling CO^2 emissions should be able to benefit from guarantee schemes for PPAs. Data centres require a constant and uninterrupted electricity supply to operate and therefore would benefit from entering such long-term and stable PPAs agreements, which can ultimately pass on to customers in the private and public sectors. Lastly, the hurdles for guarantee schemes and other instruments should not be too high for small and medium-sized enterprises (SMEs), which are less capable to provide sufficient guarantees for such long-term projects.

EUDCA recommendations:

- **The pooling of demand for PPAs should be included in the reform.**
- **The pooling of supply for PPAs should be included in the reform.**
- **The duration of long-term transmission rights should be increased to 10-20 years.**
- **Guarantee schemes for PPAs should target industries enabling the EU's climate goals.**

Article 7a: Peak shaving product

EUDCA welcomes the inclusion of peak shaving products to give some agency to the larger industry in stabilising the energy grid. However, a future-oriented market for peak shaving products should not be exclusively offered by TSOs, but also by other market participants that offer climate-friendly electricity. Regarding the involvement of the data centre sector, future investments in hydrogen cells are needed to create a reliable, carbon-neutral peak-shaving product. This would enable the data centre sector to actively aid in stabilising the energy grid without putting critical infrastructure clients at risk, such as hospitals, banks and payment services.

EUDCA recommendations:

- **Market participants other than TSOs should also be enabled to offer peak shaving products.**
- **For data centres in particular, investments in hydrogen cells are necessary to create reliable and carbon-neutral peak-shaving products.**

Article 9: Forward Markets

Forward markets are a useful hedging tool to counter price volatility, well complemented by PPA markets which can drive the investment into renewables further. The current lack of liquidity in forward markets, however, leads to less optimal outcomes for electricity-dependent industrial users like data centre operators.

As is the similar case for PPAs, cross-border forward markets in general can only take off if long-term cross-border capacity increases. This is especially needed in regions where the national market cannot provide enough products and capacity in the long-term. Long-term transition rights should therefore be increased and allowed for a longer duration, of ideally at least 10 to 20 years.

This would set a basic framework under which PPAs can develop. Forward markets are therefore a crucial enabler to meet requirements of and commitments to climate neutrality through the purchase of long-term renewable energy products across borders.

The proposal of virtual hubs might not lead to significant improvements in the forward markets. While larger electricity users would be able to cope with higher regional prices, smaller users might be disproportionately more affected. Without impact assessment and insights on the impact of the proposal on the end-users of electricity, EUDCA deems it risky to make virtual hubs mandatory.

EUDCA recommendations:

- **CfDs should complement market-based tools to not distort the forward market, and negatively impact other products such as PPAs. Forward markets' long-term transmission rights should be increased to 10-20 years.**
- **An impact assessment should be carried out to assess the consequences of establishing regional virtual hubs.**

Article 19b: Direct price support schemes (Contracts for Difference)

EUDCA welcomes initiatives that increase the capacity of Europe's renewable energy production. Contracts for Difference (CfDs) are a well-known instrument that ensures investments and guarantees security for the contractual parties. Member States should ensure that CfDs, on the other hand, do not distort the forward market for other products such as PPAs. Generally, CfDs can be a useful complementary tool to increase renewable energy projects, but should not be favoured over PPAs, for instance through discriminatory taxation that favours CfDs. Member States should enable competition to be fair in the Energy market and be designed in a way that increases the liquidity of the market. Overall, CfDs should be complementary to market-based tools.

EUDCA recommendation:

- **CfDs should complement market-based tools to not distort the forward market, and negatively impact other products such as PPAs.**