FLORENCE SCHOOL OF REGULATION

ROBERT SCHUMAN CENTRE

POLICY BRIEF

EU regulatory simplification agenda: ideas supporting the energy transition

Highlights

- Simplification is not a synonym for deregulation. A simplification agenda requires a reassessment of regulations that are excessive, outdated, and ineffective in achieving their policy objectives. This should lead to cleaning up based on research.
- In energy and climate policy, there are many reasons why cleaning up may be necessary. There have been numerous policy developments, it is a complex policy domain with many interacting objectives. The legislative process, and power struggles between various actors results in com-plexity. Rules can also prove to be more complex to implement than expected, or less useful than imagined.
- To simplify energy and climate regulation, in this brief, we refer to our research on streamlining ca-pacity mechanisms, the process for Projects of Common Interest (PCI), and the carbon market stability reserve mechanism. We also discuss how improved governance can be a way to simplify regulation with the examples of the 'all TSOs' and 'all relevant TSOs' processes, the regulatory oversight for EU-wide and regional entities established by EU legislation, and the Market Coupling Operation (MCO) function.
- We also make a preliminary scoping of a possible research agenda on simplification. We think there is room for improvements in areas such as the participation of consumers in the energy tran-sition, the sharing of costs and benefits related to grid infrastructure, and the funds to finance cli-mate action. We also think that there are claims by stakeholders that are opportune to investigate further, like the claims related to the regulation on methane emissions, the rules on cybersecurity, and many more beyond the ones we mentioned in this brief for illustration.

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1. Introduction[1]

Regulatory simplification is high on the EU policy agenda. Some fear that this process will only be used to undermine the achievements of the EU Green Deal. We, however, believe that this process can also be used positively to ensure better regulation by proposing ideas for simplification where the benefits seem to outweigh the costs. Simplification agenda is not a synonym for deregulation. A simplification agenda requires a reassessment of regulations that are excessive, outdated, and ineffective in achieving their policy objectives. This would lead to cleaning up based on research.

In energy and climate policy, there are many reasons why cleaning up may be necessary. There have been numerous policy developments in this area in a short amount of time. It is a complex policy domain in which we are combining multiple objectives ranging from building a competitive single market to sustainability, affordability and security. We have many regulatory instruments with many complex interactions. Even if we try to develop them holistically, the process requires fine-tuning. The EU legislative process itself also has its limits, and the European Commission's proposal are sometimes accompanied by imperfect regulatory impact assessments, and such assessments typically do not cover the amendments introduced in the negotiations between the European Parliament and the Council. Regulation is also imperfect due to the power struggles between the various actors and institutions, ranging from local to national and EU levels. Finally, times change. Even if a regulation was introduced for good reasons, these reasons might no longer be valid. Rules can also prove to be more complex to implement than expected, or less useful than imagined.

In this brief, we introduce a few ideas for simplification. In the first part of the brief, we refer to published FSR research that is relevant for the simplification agenda, even if it was not designed to contribute to it. In the second part, we share a few ideas for simplification that emerged from our Spring Policy Dialogue, which could contribute to a research agenda on simplification.

2. Linking our published research to the simplification agenda

In 2025, the European Commission already made two proposals for simplification. The proposal on sustainability reporting headlined: "savings of €40 billion compliance costs by exempting 80% of companies previously under the Corporate Sustainability Reporting Directive (CSRD)". The proposal on the Carbon Border Adjustment Mechanism (CBAM) headlined: "90% of importers can be exempted, as they only represent 1% of emissions under CBAM".

Both proposals, if adopted, would reduce regulatory compliance costs for companies. In the case of sustainability reporting, it is about giving a break to companies with less than 1k employees. In the case of CBAM, it is about companies - classified as occasional importers under the proposed de minimis rule - that import less than 50 tons per year of iron and steel, aluminum, fertilizers, and cement. In this way, such companies will be exempt from reporting and permit costs (e.g., filing forms, keeping records, reporting data, and applying for permits or licenses), which can indeed outweigh the collective benefits. This adjustment is expected to lift compliance burdens for, potentially, as many as 180,000 small and medium-sized businesses, without weakening CBAM's environmental integrity.

Our purpose is not to reassess these proposals, but we identified other opportunities for simplification in the energy and carbon markets. As discussed in what follows, we can also simplify by 1/ streamlining regulation; 2/ improving the governance of the policies we have in place.

2.1. Streamlining regulation

In our research, we have already identified opportunities to streamline regulations in three different domains: 1/ capacity mechanisms; 2/ the process for the identification of Projects of Common Interest; 3/ carbon market reserve mechanism.

First, the streamlining of capacity mechanisms. The European Commission already took several measures to streamline capacity mechanisms within the current legislative framework. In Menegatti and Meeus (2024)[1], we argued for an amendment to one

1 Many thanks to colleagues Ronnie Belmans, Ilaria Conti, Adrien de Hauteclocque, and Leigh Hancher for their feedback on an earlier version of this policy brief

2 Menegatti E., Meeus, L., 2024. An easy fix to streamline capacity markets. FSR Policy brief: https://hdl.handle.net/1814/77492

of the requirements that have been put on capacity markets, i.e. explicit cross-border participation. We demonstrated that implicit cross-border participation is simpler to implement and would achieve the same outcome.[3] The change from explicit to implicit cross-border participation would reduce the administrative burden for the operators of the capacity market and allow countries to implement capacity markets more quickly with lower transaction costs. This can speed up investment into the power system, and reduce capital costs.

Second, the streamlining of the process for Projects of Common Interest (PCI). The European Commission is preparing a Grid Package. In Sikow Magny (2025)[4], we analyzed both the procedural steps to select and to monitor the implementation of the PCIs under the Regulation on trans-European energy networks (TEN-E). We found that there is ample scope to simplify and shorten the procedural steps which govern the PCI selection by removing those steps that come too late in the process to have an impact and by focusing instead on the critical steps that provide important guidance and quality to the process, such as scenario development. We also propose to strengthen regional cooperation, as a steppingstone for a European approach, to build common analysis and understanding of infrastructure needs and to work together to remove obstacles and to facilitate faster implementation of the PCIs.

Third, the streamlining of the carbon market stability reserve mechanism. The EU ETS includes a carbon market reserve mechanisms that is volume based. In Borghesi et al. (2023)[5], we critically assess the EU ETS's Market Stability Reserve (MSR), noting that its volume-based adjustments, tied to the quantity of banked allowances, have dampened volatility and addressed surplus, but often only react with delay and suffer from complexity and predictability issues. Building on this critique, we argue that a price-based reserve mechanism - triggering supply adjustments when market prices breach predetermined thresholds - would be quicker to respond, simpler to implement, and more transparent.

2.2 Improving governance

In our research on governance, presented in Pototschnig (2025)[6], we have already identified three ideas to improve the governance at EU level: 1/ Streamlining of 'all Transmission System Operators (TSOs)' and 'all relevant TSOs' processes; 2/ Improving the regulatory oversight of the EU-wide and Regional entities established by EU legislation; 3/ Simplifying the Market Coupling Operation (MCO) function. Please note that we do not claim that everything in energy and climate policy and regulation should be dealt with at EU level. There are aspects which are better dealt with at national, regional or local levels, and they should be dealt with at those levels, according to the 'subsidiarity' principle[7]. However, the internal energy market requires a degree of harmonization and common rules and approaches, and these should definitely be defined at EU level.

First, EU legislation entrusts on 'all TSOs' or on 'all relevant TSOs' a number of processes, for example the development of proposals for the Terms and Conditions or Methodologies for the implementation of the Commission Guidelines for the electricity sector, or the assessment of different bidding zone configurations in the Bidding Zone Review. In such processes, the supervision of each TSO is the responsibility of the respective National Regulatory Authority (NRA). While this approach is consistent

3 If the neighbouring country has no capacity mechanism, both rules equally (improperly) mitigate the capacity market's cross-border externalities. If the neighbouring country has a capacity market in place, explicit cross-border participation has a theoretical interest, but in practice is unlikely to provide efficient and representative price signals. Indeed, market participants would have to anticipate prices across multiple non-simultaneous auctions for heterogenous products.

4 Sikow-Magny, C., 2025. Trans-European energy networks (TEN-E): ideas for simplification in view of accelerating project implementation. FSR Policy paper: https://hdl.handle.net/1814/92947

5 Borghesi, S., Pahle, M., Perino, G., Quemin, S., & Willner, M. (2023). The market stability reserve in the EU emissions trading system: A critical review. Annual Review of Resource Economics, 15(1), 131-152.

6 Pototschnig, A., 2025. Streamlining and improving some aspects of the governance of the energy sector. FSR Policy Brief. https://hdl.handle.net/1814/93683

7 The principle of subsidiarity, defined in Article 5(3) of the Treaty on European Union, limits action by the EU to those situations in which "the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level".

with the normal regulatory framework for TSOs in the Member States, it is, of all evidence, very cumbersome and inefficient when applied to EU or regional processes; moreover, it might suffer from an additional drawback due to the difficulties in identifying the source of any problem among the participating TSOs. Instead, these responsibilities could be transferred to the European Network of TSOs (ENTSOs). For electricity, the entity responsible would then be ENTSO-E. This would provide greater transparency of the process, as it would be managed by a single entity which could be subject to appropriate regulatory oversight.

Second, the regulatory oversight of the EU-wide and regional entities established by EU legislation, such as the ENTSOs, the EU DSO Entity, the ENNOH and the Regional Coordination Centres (RCC) could be improved. In fact, such entities are currently subject to a weak and convoluted regulatory oversight and enforcement framework, based on concerted oversight by the relevant NRAs – in fact all EU NRAs in the case of the ENTSOs, the EU DSO Entity and ENNOH – and enforcement by the NRA of the Member State in which the entity is established. The Belgian Federal energy regulator – CREG – is therefore responsible for enforcement for all EU-wide entities established in Brussels, but it has not taken any action vis-à-vis such entities, even in the presence of substantial delays in the processes they are responsible for. A more effective oversight and enforcement framework would see ACER taking direct responsibility for ensuring that EU-wide and regional entities comply with their obligations, with the possibility of adopting enforcement measures.

Finally, the MCO function. The current arrangement for electricity market coupling is a legacy of the past and is based on a number of 'co-owner' Nominated Electricity Market Operators (NEMOs) running the algorithm in rotation. Such an arrangement is open to the risk of discrimination by the co-owner NEMOs vis-à-vis the other ('serviced') NEMOs and of interoperability and data flow problems. To improve the operation of market coupling we propose to establish a separate entity, the Market Coupling Operator (MCO), to perform the tasks assigned to such a function by the CACM Guideline, with the optimal level of system redundancy and the required expertise. The MCO, as a EU-wide entity, would be subject to the regulatory supervision of ACER, as outlined above.

3. Scoping of a possible research agenda on simplification

In our Spring Policy Dialogue in May, additional issues were identified. In what follows we group them into two categories: 1/ those where there seems to be an issue, but research is needed to identify solutions; 2/ those where there might be an issue, research is needed to double-check the claims of stakeholders.

First, the category "there seems to be an issue, but research is needed to identify the solution."

- The "new deal for consumers" was well-intended to activate consumers on an individual and collective basis. The new deal unfortunately became a complex deal, especially if we consider that smaller consumers do not have the knowledgeto navigate all these complexities. In De Almeida et al. (2025)[8], we mapped these complexities. Overlapping concepts have been introduced in different pieces of legislation, such as active customers versus renewable self-consumers, or citizens energy communities versus renewable energy communities. There is also peer-to-peer trading, collective self-consumption, and energy sharing. Each of these concepts are slightly different, with different requirements, eligibility, conditions, etc. The complexity is even worse if we look at the transposition in national law. Simplification is clearly needed if we want to engage consumers. This applies to households, as well as businesses.
- The funds to finance climate action.[9] The existing funds are underused and not always reaching their target, which is partly due to their complexity. Beyond bureaucratic hurdles, their design often favors large, established

8 De Almeida, L., Porcari, A., Munchmeyer, M., Winters, E., Morais, H. (2025). Mapping Law and Regulation in Energy Sharing and P2P Trading within Energy Communities. U2Demo – Use of Open-source P2P Energy Sharing Platforms for Energy Democratization, 111p.

9 FSR climate team researched this topic in CAPABLE (ClimAte Policy AcceptaBiLity Economic framework), a research project that has received funding from the European Union's Horizon Europe programme under grant agreement No 101056891. The European Court of Auditors also reviewed funding for climate action.

actors while sidelining smaller innovators and local communities that could deliver transformative projects. In addition, the fragmented landscape of instruments creates competition rather than synergy, reducing the overall effectiveness of EU climate finance.

- The sharing of costs and benefits related to grid infrastructure. The inter-TSO compensation mechanism, the Congestion Income Distribution methodology, the Cross-Border Cost Allocation process, and the Compensation Mechanism for generators connected to offshore bidding zones based on congestion revenues have been introduced at different moments in time to address related issues. It would be useful to review and revise them holistically.

Second, the category "there might be an issue, research is needed to double check the claims of certain stakeholders". Many issues were raised in this category, too many to mention all of them in this initial brief. We illustrate a few.

- Regulation on methane emissions. The EU Methane Emissions Regulation (EUMR) is the world's first comprehensive regulatory framework dedicated to the monitoring, reporting, and reduction of methane emissions in the energy sector. Compliance with the EUMR requires importers to gather, verify, and submit extensive data on methane emissions across complex international supply chains. Minimizing the compliance cost is crucial to avoid unnecessary economic strain, ensure timely implementation, and maintain competitiveness while still achieving the Regulation's ambitious environmental goals. There is broad recognition among stakeholders that there is significant room to simplify compliance requirements for fossil fuel imports into the EU without undermining the environmental integrity of the Regulation. This calls for targeted research and dialogue to identify solutions, such as: developing harmonized international methane reporting standards; introducing clearer technical guidelines to support verification and assurance; leveraging digital tools to automate data collection and reduce administrative burden; exploring tiered approaches that account for differences in organizational structures and capacities across producer countries.
- Regulation on cyber security. There are general cybersecurity rules (e.g. the NIS2 Directive on security of network and information systems), and energy specific rules (e.g. Network Code on cyber security). Stakeholders claim that we should keep a close eye on how this domain develops to make sure that possible overlaps are avoided. We do not want excessive compliance costs for some aspects of cyber security to prevent organizations with limited capacity from investing in other important aspects of cybersecurity.

4. Conclusion

When discussing regulatory simplification, technical experts often react with "are you sure you want to open that box again". EU legislation is full of compromises, and if we reopen these discussions to simplify one aspect of that legislation to achieve something very specific, maybe at the end of the process we get something that is worse.

We agree that this is a risk, but not doing anything on simplification implies a bigger risk. If the existing regulations are not cleaned up, it is more difficult to keep them in place, and it is also more difficult to argue for additional regulations in areas where more regulation is needed.

To simplify energy and climate regulation, we referred to our research on streamlining capacity mechanisms, Projects of Common Interest, and the carbon market stability reserve mechanism. We also discussed how improved governance can be a way to simplify regulation with the examples of the 'all TSOs' and 'all relevant TSOs' processes, the regulatory oversight for EU-wide and regional entities established by EU legislation, and the MCO function.

We also made a preliminary scoping of a possible research agenda on simplification. We think there is room for improvements in areas such as the participation of consumers in the energy transition, the sharing of costs and benefits related to grid infrastructure, and the funds to finance climate action. Research is, however, needed to identify possible solutions. We also think that there are claims by stakeholders that are opportune to investigate further, like the claims related to the regulation on methane emissions, the rules on cybersecurity, and many more beyond the ones we mentioned in this brief for illustration.

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