SPEECH/11

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An integrated electricity market by 2014: How to make this political goal a Reality?

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Speech of Commissioner Oettinger at Eurelectric conference – opening session

Brussels, 19 January 2012

Ladies and Gentlemen,

It is nice to start the year 2012 with a speech at a Eurelectric conference! And even more so as you have selected an extremely interesting topic which by the way co-incides as well with the work programme of the Commission.

The objective set by the European Council almost a year ago to achieve the internal energy market by 2014 is nothing less than a real challenge. As you know the transposition of the 3rd internal energy market package is faced with delays.

I know that Eurelectric is a strong supporter of the steps we have taken towards an efficient and effective internal market - and I am grateful for that.

But let me outline what I see as the necessary elements to achieve the 2014 target date.

The European Union aims to have moved to a low carbon economy by 2050 – an objective reconfirmed by the European Council in February last year.

No sector will be more deeply affected by the changes which a low carbon economy will bring than the energy sector – in particular electricity.

This is why we published the Energy Roadmap 2050 which examines the challenges and the opportunities for the energy sector and allows the EU and the individual Member States, sharing common energy policy objectives, to address the challenges which energy markets face.

The scale of the internal market will be crucial to addressing these challenges. Electricity and gas markets are increasingly connected, allowing us to trade energy easily across borders.

A fully functioning and competitive European energy market has the potential to add an extra 0.8% to EU GDP by 2020, creating further employment, in particular 'new jobs' and helping keep inflation down.

In order to live up to the expectation and harness these benefits we need to overcome segmentation of markets, and complete the internal market by 2014 as called for by the Council last February.

This is crucial for giving confidence to the investors and entrepreneurs, who have to realise the investments needed over the next ten years, in the order of € 1 trillion, to meet changing energy requirements.

Development and implementation of the target model in electricity

Since 2008, a lot of preparatory work has been done to achieve market integration in electricity.

TSOs, power exchanges and market participants under the coordination of regulators have been able to come up with the basic building blocks of what has come to be called the Target Model.

We have an ambitious work programme until 2014 to harmonise our market rules and network operation rules in the EU, both for electricity and for gas.

This process will require further significant efforts from many stakeholders, Member States, the Commission, ACER, national regulators, ENTSO, European energy companies and industry associations.

Success in this endeavour will mean that there are compatible electricity markets across Europe for all timeframes.

The Target Model foresees price coupling of national or regional markets through power exchanges with market operation harmonised.

We have already seen successful first steps to the realisation of this goal in Central Western Europe. The focus has now moved to the wider north-west Europe region[1] as the next stage in a stepwise process towards full European price coupling.

Effective governance arrangements between TSOs and power exchanges will be key to success in implementing price coupling across Europe. This is a challenging task to which the Commission devotes special attention. We are currently consulting on a binding governance framework.

All this work will be vital to the integration of the large amounts of wind to the European electricity transmission system, making sure that energy will flow to where it is needed, without encountering barriers at national borders.

Implementing the new arrangements does not mean that structural bottlenecks in the system will disappear, or that new ones will not emerge as a result of the changes brought about by more renewable generation.

This may lead to the emergence of new price zones across or within Member States, as in the Nordic region.

But we have to be careful when drawing new 'lines' on Europe's electricity map. We should avoid situations in which trading zones no longer support effective competition.

Therefore our first priority should be to relieve congestion by completing new transmission infrastructure in a timely manner – not least because it can deliver benefits on so many fronts.

Infrastructure

If Europe is to reach its 2020 targets, and build the platform for reaching our 2050 aims, new infrastructure is crucial. New European energy grids will help insure against the uncertainties of price, technology and supply security.

I think we now all agree that European action in the field of energy infrastructure is needed for several reasons:

- because of the huge investment challenge,
- because of the urgency of delivery and
- because of the need to cooperate to realise cross border infrastructure.

Our proposal for an energy infrastructure delivers this needed European action.

Action is targeted at European priority corridors – already clearly identified in the 2010 Communication -- where European action is most warranted.

We propose to identify concrete projects, "projects of common interest", necessary to implement these priorities, building on the ten-year network development plans in electricity and gas and existing regional cooperation.

In this, Member States, national regulators and transmission system operators will be crucial. ACER and the Commission will ensure consistency across all regions in the selection of the necessarily limited number of projects that can truly be considered to be of common interest.

We also propose steps to shorten permit granting procedures while improving stakeholder involvement for projects of common interest.

[1] = CWE+ Nordics

This is not about undermining environmental protection or steamrolling citizens and stakeholders. Rather the opposite. It is about ensuring a clear and balanced framework, in terms of procedure and timing, to address the tensions that arise between different policy objectives and the legitimate desires of citizens.

Our proposal sets appropriate incentives and rules to ensure cross-border infrastructure is being built where it is needed.

Operating within the regulatory framework of the third package, it ensures that TSOs and regulators will have to take the interest of neighbouring countries into account and encourage riskier projects.

While existing tariff systems and market mechanisms should deliver the bulk of our needed investments we will also facilitate both the use of innovative financial instruments, and direct support where that is needed.

Third Package implementation

The call by all 27 European Heads of State or Government to complete the internal market by 2014 is a call to complete a process which began already in the mid 1990s.

It has been a step-by-step process, not always easy and sometimes with resistance from entrenched interests.

It has involved 3 major legislative packages.

The Third energy package is undoubtedly a major step forward towards the completion of Europe's internal energy market.

- With it we have a framework for delivering the common market and network rules we all need.
- With the third package we will have dedicated network companies – focused on delivering the infrastructure which allows producers and suppliers to meet their customers' needs and face the Climate Challenge and the security of supply challenge.

However, as mentioned at the beginning, I observe with real concern ongoing delays in implementation.

I regret greatly that many Member States have still not adopted the national legislation to transpose the Third energy package into their national legislation.

Such delays seriously risk undermining our common objective of completing the internal market within the next years.

I repeat my call to all Member States to take their responsibility and make all efforts to fully implement the Third package.

National implementation of the third package is necessary to complement the work of regulators and companies who are already using the tools given by the third package at EU level.

National regulators have a crucial role to play. They supervise both network operators and energy suppliers and ensure that market rules are complied with to the benefit of consumers.

It is essential that regulators in all 27 Member States can effectively make use of the new powers and competences of the Third package, and that they can do this in full independence.

Framework for the future

The importance of electricity markets, and the internal market in electricity, will increase enormously in a low carbon economy as electricity becomes a more important source of energy for all aspects of life.

While each Member State will make its own path towards a decarbonised electricity system, investors in all Member States will require sufficient incentives to ensure the generation is realised to deliver sufficient and flexible capacity.

The need for flexible capacity in particular highlights the importance of better integration of balancing markets. ACER has completed its scoping work on this topic, and the Commission intends to shortly write requesting them to begin work on a framework guideline on balancing.

This is just one of the examples of the increased cooperation and coordination amongst Member States which the shift to a low carbon and secure electricity generation across the EU requires.

We have started to develop and put in place new coordination mechanisms. The Electricity Coordination Group provides a platform for exchanges between Member States, the Commission and stakeholders on policy decisions taken at various levels, which have an impact on the internal energy market.

Deploying new technologies, as well as the risk profile of low carbon generation, means intervention will sometimes be necessary to ensure that the market delivers acceptable outcomes in terms of generation mix and security of supply.

But such actions cannot come at the expense of neighbouring systems. They need to complement the internal market and support the efficient operation of the European system. And they must be capable of incorporating the technologies of tomorrow when they come.

Smart grids and smart metering have the potential to transform our energy systems and markets, not least by facilitating new technology and allowing customers to respond effectively to price signals.

New companies will offer energy solutions to consumers which meet their energy needs in innovative ways and, by aggregating the behaviour of many small users, offer a useful service balancing generation and stabilising the grid.

Therefore as we manage the change towards a low carbon economy we all need to ensure that market arrangements:

- deliver system integrity;
- facilitate participation of <u>all</u> consumers and small scale energy producers; and
- that interventions to meet important energy mix or security of supply aims are coherent.

We will look at these matters closely when preparing the internal market and renewables communications this year.

Conclusion

Ladies and gentlemen, we all must step up our efforts to complete the internal energy market by 2014, and to remove the remaining barriers to the free flow of gas and electricity within the EU.

We all must step up our efforts to build an internal energy market which will allow the investments needed to take us to 2050 to be made. Collectively we can and will achieve this goal.

Frankly, we do not have much choice. The cost of not having an internal energy market is simply too high. Diverging market rules and network operation rules will not deliver secure or competitive energy to citizens and business.

If we do not continue to build the internal energy market – for energy consumers and for energy producers - we will waste vast sums of money, and the high costs of providing secure energy will undermine the competitiveness of our industry and the living standards of our citizens.

If we do not build an internal energy market that allows an effective European response to the climate issues we face, we will struggle to reform our energy sector in the next decades to combat climate change effectively.

Thank you.