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Ambitions of the Energy Infrastructure Package

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

Council of European Energy Regulators (CEER) conference on Infrastructure and Energy Efficiency

Brussels, 25 January 2012

Dear Lord Mogg, dear Peter Plug,

Dear Ladies and Gentlemen,

- First of all, I want to thank the Council of the European Energy Regulators for organizing this conference on "Energy Infrastructure and Efficiency". By choosing this topic, you have taken up two subjects which play a pivotal role in the EU energy policy.
- But as MEP Turmes will right afterwards cover energy efficiency, I will just focus on **Energy infrastructure**.
- We are currently facing a huge transformation process in the energy sector. The way energy is generated, transported and stored is fundamentally changing. And if we are serious about reaching our CO2 reduction goal of 80- 95% by 2050, it will require even more change.
- The share of renewables in power generation is expected to grow from 19.5% today to around 35% in 2020, which means nearly a doubling. More importantly the role of variable energy sources, such as wind and solar is increasing. Electricity grids therefore will have to cope with increasingly variable supplies.
- And due to growing electrification of our energy appliances, overall demand will not decrease, but increase – even if we get more efficient.
- Therefore especially in the electricity sector huge investments are needed to cope with these new conditions. New lines and new smart technologies are needed to guarantee a secure supply of energy and to keep up with our 2020 targets.
- Until 2020, for transmission networks in electricity on- and offshore an estimated 140 bn Euro in investments is required.
- Further, in order to ensure security of supply, diversify supplies and end isolation of certain Member States we need to build new gas pipelines. And if we want to continue using fossil fuels, we will need to deploy CCS-technologies including new transportation infrastructure for CO2.
- The need for new infrastructure is therefore evident. When it comes to their realisation it gets more difficult:
- New infrastructure and especially electricity lines often face strong public opposition. Permitting procedures sometimes take up to 10 to 30 years. Other projects are not realized as nobody wants to finance them either because those who bear the costs are not benefitting from them or simply because they are lacking commercial viability.
- That is why we have presented **new legislative proposals on Energy Infrastructure** in October last year.
- With the regulations on Guidelines for trans-European networks and on the establishment on a "Connecting Europe Facility" the aim is to put in place the measures required to build the infrastructure of European common interest necessary in 2020 and beyond.

What is the content of the proposal?

- The proposal identifies **12 priority infrastructure corridors** or areas in the sectors of electricity (*transmission, storage, smart grids*), gas (*high pressure pipelines, storage, LNG/CNG*), oil (*pipelines*) and CO2 transport infrastructure.

- To qualify as projects of common interest, projects must contribute significantly to the implementation of these priorities, have a cross-border impact and meet objective criteria. The priorities for instance include offshore electricity grids in the Northern Seas, interconnections in South Western Europe and Central Eastern Europe, the Southern Corridor, the integration of the Baltic market or the development of Smart Grids.
- For such projects of common interest, our proposal sets the framework and provides incentives and rules to leverage private finance and to speed up implementation of these projects. The proposed measures address three issues which are currently **the main obstacles** when it comes to implementing projects: 1) the regulatory framework, 2) permit granting and public acceptance and 3) financing.

Regulatory framework

- With the third internal market package, a range of instruments are already available to improve cross-border infrastructure planning, such as the provisions for cooperation between regulators. However, these provisions are not always sufficient for projects where costs and benefits are shared unequally across borders or for innovative projects with a high risk profile.
- Currently costs are normally borne by the users of the network in the Member State where the infrastructure is located – even if another Member State may be benefitting from it. Given this situation, a lot of projects are not implemented. And it is difficult to reproach regulators for that: Indeed who likes to see national network tariffs rise for a project which benefits another country? - Nobody.
- We are therefore proposing new flexible mechanisms to **allocate costs of infrastructure to the beneficiaries** – which might be in other Member States – and to allow TSOs to invest across borders. National regulatory authorities will need to jointly approve such cross-border investments and cost-allocation. If national authorities cannot agree, ACER will step in.
- To enable such new cost-allocation, a methodology for an **EU-system wide cost-benefit analysis** should be developed by the ENTSOs and used by TSOs and other project promoters as well as regulatory authorities to evaluate the costs and benefits of a project.
- Moreover, especially for innovative and risky projects, regulators should offer appropriate **incentives** for the investors to mitigate their risks.

Permit granting

- Even if costs are allocated properly and incentives are sufficient, projects may still be delayed or even prevented by long permit granting procedures and a lack of public acceptance.
- Just to mention two examples:
 - A French-Spanish interconnection, crucial in terms of security of supply and integration of renewables, took 30 years to complete the permitting process.
 - Or take the German "wind collection connection", a connection of major importance to bring wind energy from the North to consumption areas in the South, and crossing the border of two "Länder": Applications were submitted in 2007. Today, the project is completed on one side of the border, whereas it is still waiting for approval on the other side.

- From a European perspective, this is simply not acceptable! We need to be faster if we all agree that we want to have electricity at all times and that we want to deploy renewables at a large scale.
- Some Member States have gone ahead with streamlining their procedures. The Dutch authorities have for example managed to push down the implementation period for certain projects from 15 to 6 years – including planning and construction. This represents remarkable progress. Similar efforts have been undertaken in other Member States,
- However, actions by a few Member States are far from enough. We need a common approach to **shorten permit granting procedures** and to **improve conditions for better public participation**.
- Therefore we are proposing to streamline administrative procedures by organising the permit granting process around **one competent authority** for each Member State (*a so called **one stop shop***).
- Further, permitting procedures should not take longer than **three years** from the submission of a proposal to the issuance of the permit (*excluding legal recourse actions and activities to access property*).

Public acceptance

- Let me stress that these proposals will in no way shorten the period given to citizens and other stakeholders to express their views. On the contrary: the aim of the proposal is to increase participation of citizens in the decision-making process. We need to make sure that citizens are informed and understand why projects are necessary. There also needs to be early discussion on impacts, costs, benefits and alternatives with those concerned by a project.
- Therefore, in our proposal we make provisions for enhancing **transparency** ensuring an early **involvement of the public** – meaning even before the application for the permit has been submitted.

Financing:

- Last, we propose **that projects of common interest get financial support from EU funds** if solutions cannot be found through adjusting the regulatory framework alone.
- For most projects, financing should be possible if the regulatory framework is right. However, some projects might still not be "bankable" for individual investors. Access to long term capital has become more difficult since the financial and economic crisis, especially for those companies, private or public, where the volume of the investment simply exceeds their financial capacities. Further, some projects are simply not commercially viable as they do not serve the market only, but a wider European benefit, such as security of supply or innovation.
- Therefore we propose the new "**Connecting Europe Facility**" with a budget of about 9 billion for energy infrastructure of European importance. Under this facility **new innovative market-based instruments**, including project bonds may be used to improve access to equity and debt capital.

- In addition, there will be the possibility for direct support from a limited subset of projects of common interest through **grants for studies and works**. To prevent market distortion, grants for works are reserved for those projects which in view of their low commercial viability, are unable to attract private funding, but display wider benefits to society, such as security of supply benefits.

Conclusion

- Ladies and Gentlemen, I suppose we all agree that the challenges we face are enormous if we want to reach our energy and climate goals. With the proposed Energy Infrastructure Package the Commission has presented the instruments which should help to tackle one of the challenges, that is: to get in place the urgently needed infrastructure of European importance.
- Our proposal is only setting the framework. Joint action will be needed to make this work in practice. In this context, regulators and CCER have a crucial role to play! We will especially need your support for developing and applying the right regulatory framework. I invite you to continue your work on this in close cooperation with the Commission.
- In addition, it is clear that there is a huge amount of other challenges up to 2020. And if we are serious about our decarbonisation goals for 2050, then these challenges will not get less: The increasing share of renewables in the generation mix does not only require new interconnection infrastructure. It also impacts on the market functioning. It requires additional flexible generation capacities and new smart technologies to balance the variable generation. And, as pointed out in the beginning, it will be essential that we find new ways to tap into the potentials of energy efficiency, in order to decarbonise our economy. You will be discussing some of these issues this afternoon and I am sure it will be an interesting debate.
- Let me conclude by saying: It is a challenging time, but also an exciting time! And we should not forget: 2020 is tomorrow. Therefore, action is needed now!
- Thank you for your attention!