

ROADMAP

Title of the initiative: **European Energy Infrastructure Package**
Type of initiative (CWP/Catalogue/Comitology): CWP
Lead DG/contact person/details: DG ENER.B1
Expected date of adoption of the initiative (month/year): November 2010
Date of modification:
Version No:

Initial IA screening & planning of further work

A. Context and problem definition

(i) What is the political context of the initiative? (ii) How does this initiative relate to past and possible future initiatives, and to other EU policies?

The Energy Infrastructure Package (EIP) will be a cornerstone of the wider European energy policy that has seen significant progress in the recent past (adoption of the third internal energy market package, adoption of the directive on renewable energies, current negotiation of the regulation on security of gas supply, ongoing implementation the Strategic Energy Technologies (SET) plan).

It was announced in the Second Strategic Energy Review, which was published together with a Green Paper in November 2008. The review was adopted by the European Council on 19 February 2009. At its March summit in 2009, the EU Council invited the Commission "to present early in 2010 its proposal for a new EU Energy Security and Infrastructure Instrument." (EESII)

The EIP will revise the existing policy for trans-European networks in energy (TEN-E), which was first introduced in the Treaty establishing the European Community, Article 156. The policy has been developed and shaped in the 1990's through successive TEN-E Guidelines (the most recent one is 1364/2006/EC) and the corresponding Financial Regulation ((EC) No 680/2007).

The EIP will take account of existing internal market legislation and EU research and development activities in the energy field.

What are the main problems identified?

Europe's energy networks – that is, the infrastructure to transport electricity, gas, olefins and other fuels from producers to consumers – are aging. Their development has been based on traditional fossil fuel supplies, and large, centralised production, with cheap and plentiful energy. The enlarged EU has inherited poor east-west and south-north connections. This makes it more difficult for energy to move freely in the EU and makes some regions more vulnerable to supply disruption. In addition, the lack of suitable network links is a barrier to further market integration and to investment in renewable energy sources that are often located at distance from major consumption centres. With energy imports, both fossil and potentially renewable, set to rise under almost all scenarios, new import routes are urgently needed to give the EU greater flexibility in its supplies. Due to existing financing patterns, market and regulatory failures, not all of the massive investment needed will be realised by the market alone.

In addition, increasing local opposition to energy infrastructure projects in general all over Europe are leading to ever more complex permitting procedures, putting at risk the achievement of the EU's 2020 climate targets.

The TEN-E Implementation Report for the period 2007-2009 has identified the main problems encountered with the current guidelines and financial instrument:

- TEN-E objectives are not in line with the EU's strategic energy priorities, notably with regard to the recently adopted climate targets.
- The existing guidelines lack clarity for identification of priority areas. The current categorisation of projects is confusing and provides no flexibility to include new projects or innovative technologies and to exclude others.

- Better mechanisms are needed to promote cooperation between Member States involved in individual projects.
- TEN-E financing is not well coordinated with other EU financing in the framework of the EU cohesion policy or the EU's external action. Currently, it is not possible for TEN-E budget to finance projects outside of the EU, which are relevant to Europe's security of supply of other EU policy goals.

Who is affected?

The current problems faced by European energy infrastructure potentially affect a significant number of European Member States, citizens and companies. This was proven several times during the Ukrainian gas crisis, which in January 2009 left 18 European countries with major falls or cut-offs of their gas supplies from Russia transported through Ukraine, but also during several black-out events on the European electricity grid, such as the one on 5 November 2006, which left about 10 million people in several European countries in the dark during a period of 30 minutes. Several studies demonstrate the larger economic impact linked to insufficient security of supply.

As infrastructure development is key to achieving the EU's climate targets, the problems identified affect more generally all European citizens.

The proposal will affect all actors of the energy sector (national governments, regional/local administrations, regulators, transmission system operators, energy producers, project developers etc.).

(i) Is EU action justified on grounds of subsidiarity? (ii) Why can the objectives of the proposed action not be achieved sufficiently by Member States (necessity test)? (iii) As a result of this, can objectives be better achieved by action by the Community (test of EU Value Added)?

Member States alone will not manage to develop energy infrastructure, which is needed to achieve the stated goals (market integration, emission reductions, security of supply). This is due to the cross-border nature of this infrastructure and to certain public goods (such as security of supply) that this infrastructure will provide to the EU as a whole.

In particular, the following incentive and cross-border issues have been identified:

- While infrastructure is needed for the market to develop, it remains unclear to what extent market incentives alone can induce infrastructure development, given identified market failures and externalities.
- Certain infrastructure projects are not necessarily of national interest, although they provide wider European benefits.
- Regulatory differences, notably concerning rates of return for infrastructure investment, are an obstacle to cross-border projects.
- Long and uncertain planning and authorisation procedures in general make infrastructure development difficult and are a particular problem for projects crossing several jurisdictions.
- Lack of political coordination between Member States can prevent projects of European interest to get the backing they need to overcome problems during implementation.

In addition, certain decisions on network development will require an integrated approach, which Member States alone would not take, as such an approach might be the best in terms of costs and benefits at EU level, but not the Member State level. This is particularly true for the offshore grids blue print, which will form a part of the EIP.

This justifies EU action, in addition to existing Member State action.

B. Objectives of EU initiative

What are the main policy objectives?

The EESII will have the following general objectives: (i) completing the Internal Energy Market, (ii) ensuring the development of networks to permit the achievement of the EU's energy and climate objectives, and (iii) guaranteeing EU security of energy supply, through assistance for key infrastructure projects within and outside the EU.

The EIP will comprise the following parts:

- Communication on Energy Infrastructure Development for the 2020/30 horizon
- Review of guidelines for trans-European energy networks
- Commission staff working paper on energy infrastructure
- Communication on the preparation of a blue print for offshore grids in the Northern Seas of Europe
- Report on the state of play of smart grids

The impact assessment will cover the infrastructure related aspects of the various parts of the EIP and not RES generation issues.

Do the objectives imply developing EU policy in new areas or in areas of strategic importance?

The objectives are in line with the objectives of European energy policy as defined in Article 194 of the new Treaty of the European Union.

C. Options

(i) What are the policy options? (ii) What legislative or 'soft law' instruments could be considered? (iii) Would any legislative initiatives go beyond routine up-date of existing legislation?

(i) Different policy options will be examined in the Impact Assessment report:

- abandoning the TEN-E financial instrument;
- maintaining TEN-E guidelines' current objectives and scope (electricity and gas transmission, gas storage and LNG) and support at their current level (155M€ for the financial period 2014-2020);
- reinforcing the cooperation mechanisms on regional/ corridor level and extending the TEN-E scope to include other infrastructure for oil, carbon capture and storage, compressed natural gas, electricity storage, while maintaining the current level of support;
- reinforcing the cooperation mechanisms on regional/ corridor level, including authorisations, and extending the TEN-E scope and assessing investment needs, by defining clear strategic priorities and selection criteria for projects to be financed (studies and/or works) and by using innovative financing instruments to maximize the impact of EU budget.

(ii) / (iii) Legislative action will cover the revision of the existing TEN-E guidelines. However, the new instrument will include several areas of new legislation:

- identification of main bottlenecks for European energy infrastructure development;
- definition of infrastructure projects of European interest and application of specific procedures for their accelerated planning and permitting.

More generally, the package could contain appropriate measures to accelerate planning and permitting procedures for all energy infrastructure projects that contribute to reaching the EU's energy and climate objectives.

Does the action proposed in the options cut across several policy areas or impact on action taken/planned by other Commission departments?

The EIP aims at defining a holistic, strategic and coherent framework for infrastructure development for the EU. It therefore considers infrastructure development both inside and outside of the EU and cuts across several EU policy areas:

- external relations policy.
- cohesion and regional policy.
- climate and environmental policy.

Explain how the options respect the proportionality principle

The challenges posed for the energy sector by the EU's energy and climate objectives are significant. First conservative estimates of the EU's infrastructure investment needs for the

period up to 2020 amount to more than 50bn€ for the electricity sector alone, based on a business-as-usual scenario, which does not meet 2020 requirements in terms of energy mix and emission levels. Investment needs for gas sum up to several 10bn€. If realised, this will correspond to an unprecedented surge in investment, which will need to be accompanied by appropriate measures, both in terms of legislation/regulation and in terms of financial support of various forms.

It therefore seems reasonable to analyse all policy options from a no budget solution to a solution with significant EU support. For each option, a cost-benefit analysis will be carried out to justify EU action.

D. Initial assessment of impacts

What are the significant impacts likely to result from each policy option (cf. list of impacts in the Impact Assessment Guidelines pages 32-37), even if these impacts would materialise only after subsequent Commission initiatives?

The EIP will have significant impacts in the following areas:

- better functioning of the internal energy market through increased cross-country interconnection, with positive impact on energy prices through increased competition;
- positive impact on climate and environment through the promotion of more environmentally and climate friendly energy transmission and storage solutions;
- increased energy security through better infrastructure and increased EU internal transmission capacities; diversified supply origins, routes and partners;

Could the options have impacts on the EU-Budget (above 5 Mio €) and/or should the IA also serve as the ex-ante evaluation, required by the Financial Regulation?

Several options currently under examination will have significant impacts on the EU budget. The IA is addressing this issue.

Could the options have significant impacts on (i) simplification, (ii) administrative burden or on (iii) relations with third countries?

(i) / (ii) The EIP will include proposals to streamline and accelerate planning and permitting procedures for projects that are strategic at different levels, and possibly, for all energy infrastructure projects that contribute to reaching the EU's energy and climate objectives. This could significantly reduce administrative burdens for businesses and administrations in the energy sector.

(iii) The new financial instrument could include means to directly support projects outside of the EU. It will exploit all possible synergies with existing EU external action tools.

E. Planning of further impact assessment work

When will the impact assessment work start?

The IA work is currently under way. The final draft IA will be sent to the IA Board by mid June 2010.

(i) What information and data are already available? (ii) Will this impact assessment build on already existing impact assessment work or evaluations carried out? (iii) What further information needs to be gathered? (iv) How will this be done (e.g. internally or by an external contractor) and by when? (v) What type and level of analysis will be carried out (cf. principle of proportionate analysis)?

(i) The IA builds on the following documents:

This impact assessment builds on the following documents:

- Green Paper "Towards a secure, sustainable and competitive European Energy Network" and its

- public consultation in the period November 2008 – March 2009 (ready)
- Implementation Report on the TEN-E guidelines and TEN-E financial regulation for the period 2007-2009 (by April 2010)
 - Proposal for a new gas security of supply regulation (under negotiation)
 - General studies:
 - most recent PRIMES energy scenarios
 - World Energy Outlook 2009 by AIE
 - Study by COWI / Cambridge Econometrics (assessing the infrastructure investment need and the economic and social impacts of the different policy options) (by May 2010)
 - Studies concerning fossil fuels:
 - ENTSO-G 10-year network development plan
 - Feasibility study for Europe-wide CO2 infrastructures by Arup (expected to be published by end 2010)
 - Study on Caspian Development Corporation Joint gas purchasing and infrastructure development by CERA
 - Study on Methodologies for Gas Transmission Tariffs and Balancing Fees in Europe by KEMA
 - Studies on the power sector:
 - ENTSO-E 10-year network development plan
 - System adequacy forecast 2010-2025 by ENTSO-E
 - Power Choices Study by Eurelectric
 - Decarbonisation pathways by European Climate Foundation (McKinsey, KEMA, Imperial college)
 - Renewables 24/7 by Greenpeace/EREC
 - Transforming Europe's Electricity Supply by EASAC
 - OffshoreGrid study
 - Study on the financing of renewable energies
- (ii) The IA will rely on results given by the IA studies carried out for the energy and climate package and the SET plan. It will also benefit from the preliminary results available concerning the National Renewable Energy Action Plans, which Member States will submit by end of June 2010 and on Commission internal work under way concerning an energy roadmap for 2050.
- (iii) / (iv) External contractors are currently carrying out work on the infrastructure needs and impact assessment (COWI) and renewables financing (ECOFYS). All remaining work will be carried out internally, notably in collaboration with relevant stakeholders such as ENTSO-G and ENTSO-E.
- (v) The analysis carried out is both quantitative (assessment of infrastructure needs, evaluation of current financing instruments and future financing needs) and qualitative (evaluation of main administrative obstacles to infrastructure development).

Which stakeholders & experts have been/will be consulted, how and at what stage?

A public consultation of all relevant actors in the energy sector took place from November 2008 to March 2009 on the basis of the Green Paper, with more than 90 parties sending in contributions.

More informal consultations have since been held. The outline of the EIP will be presented at different upcoming events between March and May 2010: high level under the Spanish Council presidency, Gas Coordination Group meeting, various workshops of the Berlin Forum, Bucharest Forum etc. Consultations are ongoing in the framework of the OffshoreGrid study.