Energy Union – State of Play

1st meeting of the Commission expert group on electricity interconnection targets

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Source: Directorate-General for Energy
The Energy Union

2030 Framework

-20% Greenhouse Gas Emissions
20% Renewable Energy
20% Energy Efficiency
10% Interconnection

≥ - 40% Greenhouse Gas Emissions
≥ 27% Renewable Energy
≥ 27% Energy Efficiency
15% Interconnection

* To be reviewed by 2020, having in mind an EU level of 30%

European Energy Security Strategy

Energy Security, Solidarity and Trust
Research, innovation and competitiveness
A fully integrated internal energy market
Decarbonisation of the economy
Energy Efficiency

Source: Directorate-General for Energy
Energy Union – Overview of Legislative Initiatives

- Security of Gas Supply Package (Feb 2016)
- Effort Sharing Regulation (July 2016)
- LULUCF (July 2016)

Still to come:

- Energy Efficiency
- Market Design
- Renewables
- Regulation on Governance of the Energy Union

Source: Directorate-General for Energy
16 February 2016

1) Revision of Regulation on Security of Gas Supply

2) Revision of IGA Decision

3) Strategy for LNG and Gas Storage

4) Strategy for Heating and Cooling

Security of Gas Supply Package

Based on Energy Union priorities

- Improving security of supply by creating competitive gas markets
- Reducing import dependency by modernising the heating and cooling sector
- More effective crisis prevention and response instruments based on cooperation and solidarity

Source: Directorate-General for Energy
April / July 2016

PINC (April 2016)

- Focus on the **investments related to safety upgrades** and to the safe operation of existing facilities

Stocktaking of EFSI (June 2015)

- With 17 billion euros, the **energy sector represents the biggest share of approved investments**

ESR, LULUCF and European Strategy for low-emission mobility (July 2015)

- EC proposal on binding GHG emission reductions for MS up to 2030
- EC Proposal to integrate the land use sector into the 2030 Framework
- Low-emission mobility strategy focusing on i) increasing the efficiency of the transport; ii) low-emission alternative energy for transport; iii) moving towards zero-emission vehicles

Source: Directorate-General for Energy
Legislative initiatives - Energy

Energy Efficiency Package

**EED**

**Main objectives:**

- Optimal level of energy savings target for 2030 (at least 27% target, having in mind 30% EU target)
- Set a framework for 2030 that will ensure the cost-effective delivery of the target
- Revision of Art. 7 and Art 9-11 (Clarified, up-to-date rules on metering and billing)

**EPBD**

**Main objectives:**

- Simplification of outdated provisions (which includes the strengthening of renovation strategies)
- Facilitating the **uptake of Smart building technologies**
- Supporting the link between policy and **financing** to results

Source: Directorate-General for Energy
EED - The proposal aims at achieving:

- Setting the 2030 energy efficiency target
- Enable the required progress towards the national and EU energy efficiency targets for 2030 and set in place a mechanism if progress is not sufficient
- More information available to consumers about their thermal energy consumption
- Reduced administrative burden to Member States and improved reporting on the measures and savings claimed by the Member States
- Updated Primary Energy Factor (PEF)
Legislative initiatives - Energy

Market Design

Main objectives:

• Building a more flexible and interconnected electricity market to let in increasing shares of variable, decentralized RES

• A European framework for capacity remuneration, steeped in a shared and transparent adequacy assessment

• Engaging consumers to take an active role in the energy transition, with more competitive and transparent retail markets

• Ensuring coordination and cooperation in preparation for, and at times of crises

• Adapting the institutional framework for new competences and for regional functions (ACER, ENTSO-E, DSOs)
Market Design Reform: *NOT to be expected*

- Re-opening **ownership unbundling** provisions
- Replacing 42 EU TSOs by “**EU-TSO**”
- Creation of a **European Energy Regulator**
- Prohibition of **capacity mechanisms**
- **EU-wide RES support scheme**
Update Retail Markets
Legislative initiatives - Energy

Renewable Energy Package

Main objectives:

- Ensure an reliable system for the achievement of at least 27% share of RES at EU level;
- Promote market integration of renewables and the Europeanisation of support schemes for renewable power
- Mainstreaming renewables in heating and cooling supply
- Mainstreaming renewables in transport, including advanced renewable fuels
- Enabling consumers self-supply of renewable electricity

Source: Directorate-General for Energy
The revised RES Directive – some key challenges

- Addressing the high financing costs for RES across the EU
- Ensuring regulatory stability and enhancing regional coordination (incl. on support schemes)
- Fostering innovation
- Reducing administrative barriers
- Enabling cost effective self-consumption
- Untapping the high RES potential in H&C and transport

Achieving the at least 27% EU level binding renewables target cost effectively and contributing to the EU political priority of becoming world number 1 in renewables
The renewables financing challenge

The cost of capital for RES investments remains high and substantially diverging across the EU while RES investments mostly go to a limited number of MS.

However, meeting the 2030 targets cost effectively would require an important level of investment more evenly spread across the EU.
Ensuring a holistic approach across policy areas

The new market design will be the foundation of the 2030 framework (short term markets, flexibility) and ensure RES generators can earn a high fraction of their revenues via the market.

With the governance initiative underpinning the process across the 5 Energy Union dimensions.

But also Energy Efficiency, Energy Performance of Buildings, Risk preparedness, the ETS and non-ETS proposals...
Legislative initiatives - Energy

Governance of the Energy Union

Core features:

• Essential requirements for Member States' Integrated National Energy and Climate plans (2021 to 2030)

• Iterative process between the Commission and Member States on the establishment and implementation of national energy and climate policies

• Content and process of the integrated Commission monitoring of the implementation of the Energy Union
Streamlining and integration of planning, reporting and monitoring...

NEW GOVERNANCE:

- Integrated national energy and climate plan
- Periodic progress reports
- Periodic State of the Energy Union

NOW:

- MS planning
- MS reporting
- COM monitoring / reporting
...underpinned by a strong governance process!

Process steered by the Commission's Guidance on National Plans (2015 State of the Energy Union) and the Council Conclusions from November 2015 – the governance process will be specified by the Commission's forthcoming legislative proposal.
Energy prices and costs - The Headlines

- **Wholesale** gas, electricity and oil prices have fallen significantly since 2012
  - Prices in regional EU markets have converged
  - Global price gaps with US (-) and Asia (+) have diminished
  - The EU energy import bill fell by 35% since 2013; economic growth was boosted

- **Retail** prices
  - household electricity prices rose 3% pa; gas prices around 2% pa.
  - industry electricity prices rose 2%; gas prices were stable; fell for large consumers
  - Higher network tariffs and taxes and levies countered fuel price reductions

- **Energy costs**
  - Energy share of household expenditure has risen to 5.8%;
    - poorer households share has increased to 8.6%, a greater increase than for wealthier households
  - **Overall** industry's energy share of production costs is less than 2%
    - Detailed data on energy intensive industries shows overall energy cost shares have declined since 2008
    - However these shares can be very significant and affect competitiveness
  - Tax/levy breaks and exemptions, especially for large energy consumers, help protect industry from unequal international competition
Differences in electricity prices for industry
(IB = small consumers   IF = large consumers)

Differences between small and large consumers mostly driven by lower network costs and taxes and levies

Wide differences across Member States
Energy costs in energy intensive industries:
Much more significant – special case

Energy costs shares of selected Energy Intensive sectors

Source: Ecofys study 2016, Eurostat
Early 2017

2nd State of the Energy Union

Core features:

- **State of play** of the Energy Union (across the 5 dimensions)
- **Policy observations** for all 28 MS
- EC guidance on **regional cooperation**
- **Report on energy prices** and costs
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