



HOUSE OF LORDS

European Union Committee

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6th Report of Session 2015–16

# EU energy governance

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Evidence is published online at [www.parliament.uk/eu-energy-governance](http://www.parliament.uk/eu-energy-governance) and available for inspection at the Parliamentary Archives (020 7129 3074).

Q in footnotes refers to a question in oral evidence.

## SUMMARY

Energy is crucially important to all of us. We depend on an abundant and affordable supply of energy. The European Commission's flagship Energy Union Strategy recognises this fact and has five aims: energy security; the completion of the internal energy market; energy efficiency; emissions reduction; and research and innovation. An agreed EU energy governance framework will underpin the relationships between the EU institutions and Member States. Such a framework will seek to meet the energy policy objectives of the EU on the one hand, and fulfil national aims on the other.

Capacity markets can help to secure energy supply in the medium term at a competitive price. We call for the development of common EU standards for capacity markets, a greater emphasis on the role of regional co-operation, energy storage and demand side measures, and the opening up of domestic capacity markets to cross-border mechanisms. We argue that any EU co-ordination of capacity markets should aim to mitigate the distortion of competition and cross-border trade.

We welcome the introduction of National Energy and Climate Plans, the move to longer-term planning and the assessment of progress against EU level targets. We recommend that the overall assessment of the consistency of Member State National Energy and Climate Plans should be carried out by the Commission or another existing body. On a national level, the UK Government should do more to report against its own progress on its energy and climate goals.

We heard that legislative proposals in the area of governance would be controversial. We heard that the EU-wide binding 2030 renewables target had not been broken down into individual Member State targets. We believe firmly that without an effective, transparent, accountable, and legitimate governance mechanism, the significance of the target will be considerably diminished and the incentive on the part of Member States to be ambitious will be weakened. We urge the European Council to call on the Commission to propose a monitoring and enforcement mechanism that acts as a guarantor for the agreement, and ensures that Member States share the effort equitably.

Long term policy signals are crucially important for those who invest in energy. The European Council and the Commission should be much clearer on the timetable for the establishment of the energy governance framework. To stimulate investor confidence, the UK Government should be clearer about its own long term renewable energy strategy and national energy and climate targets.

Consumers should play a key role in energy governance discussions. We recommend that the UK Government consult stakeholders and consumers during the development of the UK's National Energy and Climate Plan and that it should explain the financial and security benefits of a more integrated energy market more fully.

Regional co-operation should be far more prominent in governance discussions, and we call on the Commission to require Member States to demonstrate that this has taken place in the preparation of their National Energy and Climate Plans.

More broadly, the Commission should ensure that its proposals for a future energy governance framework include legal clarity, a respect for Member State sovereignty, a focus on security of supply, commitment to the consumer, real ambition for decarbonisation and increased regional co-operation.



# EU energy governance

## CHAPTER 1: INTRODUCTION

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1. As a society, we are more dependent on a secure energy supply now than at any other point in history. The ‘energy trilemma’ of security of supply, sustainability and competitiveness is an ever-present challenge for policy makers.<sup>1</sup> The European Commission’s Energy Union policy, proposed in 2014, seeks to address this challenge. It has five closely related and mutually reinforcing aims:
  - energy security;
  - the completion of the internal energy market;
  - energy efficiency;
  - emissions reduction; and
  - research and innovation.
2. The Energy Union is a strategic priority for the Commission and thoughts are now turning to the governance framework that will underpin it. As a shared competence between the EU and Member States, co-ordinating EU energy policies will always be a demanding task. At a time when geopolitical security concerns are heightened, pressure to decarbonise is increasing and consumers are facing higher energy bills, agreeing a common approach to energy governance will present fresh political challenges.
3. Policy makers should be drawing on other areas of EU policy when considering the future of Europe’s energy system. The Digital Single Market<sup>2</sup>, with its strategy for better access for consumers across Europe, has the potential to give more power to energy consumers and stimulate innovation and investment in new technologies such as smart meters. The Commission’s Capital Markets Strategy can help to open up new sources of funding for cross-border energy projects such as interconnectors, as this investment and the mobilising of capital are critical if new energy infrastructure is to be realised. To upgrade Europe’s infrastructure, the European Commission has estimated that around €200 billion is needed during the current decade for transmission grids and gas pipelines.<sup>3</sup>
4. An EU energy governance framework will always seek to balance Member State priorities and their right to determine their own national energy mix on the one hand, with the wider energy and climate goals of the EU on the other. The Energy Union builds on and widens the scope of existing policy objectives. The Commission has an important role in judging a politically acceptable balance for Member States and in securing EU-wide agreement

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1 HM Government, *Delivering UK Energy Investment* (July 2014), p4: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/331071/DECC\\_Energy\\_Investment\\_Report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/331071/DECC_Energy_Investment_Report.pdf) [Accessed 1 December 2015]

2 Communication from the Commission: A Digital Single Market Strategy for Europe, [COM \(2015\) 192](#)

3 European Commission, ‘Infrastructure: Connecting energy markets and regions’: <https://ec.europa.eu/energy/en/topics/infrastructure> [Accessed 3 December 2015]

on governance arrangements. Its proposals need to be specific and well defined.

### Background

5. Significant developments have been made in EU energy policy over the last few years. There has been important infrastructure and regulatory progress towards the completion of the internal energy market. The aspiration is to create a genuine single market for energy goods and services that seek to benefit end-users and to increase energy security. The development of common network codes, greater interconnection, the push for common rules on gas security of supply, and Liquefied Natural Gas developments, are all leading towards greater electricity and gas market integration. The 2020 climate and energy package was agreed by EU leaders in 2007 and enacted in 2009. It contains binding legislation to ensure the EU meets its climate and energy targets for the year 2020, and sets three key targets:

- 20% cut in greenhouse gas emissions (from 1990 levels);
- 20% of EU energy from renewables; and
- 20% improvement in energy efficiency.

Crucially, the 20% greenhouse gas and renewables targets were broken down into individual Member State targets. The agreement was hailed as a significant step towards common long-term energy and climate goals.

6. In January 2014 the Commission published a Communication setting out a policy framework for energy and climate policy until 2030, making explicit mention of governance. The Communication said:

“The increased flexibility for Member States will be combined with a strong European governance framework to deliver EU objectives for renewable energy and energy savings in a manner that is consistent with attainment of national and European greenhouse gas targets and coherent with the wider principles of European energy policy, including the operation and further integration of the internal energy market and the delivery of a competitive, secure and sustainable energy system.”<sup>4</sup>

7. Later that year, at the October 2014 European Council, the targets for 2030 were adopted. They included:

- a binding target to reduce greenhouse gas emissions by at least 40% by 2030 (from 1990 levels);
- an EU-wide binding target for renewable energy of at least 27%; and
- an indicative energy efficiency target of at least 27%.

8. A key difference from the 2020 targets is that the 27% renewable energy target is binding at EU level but is not broken down into individual Member State targets. The October 2014 Council conclusions also said that the target

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4 Communication from the Commission: A policy framework for climate and energy in the period from 2020 to 2030, [COM \(2014\) 15](#)



“will be fulfilled through Member States’ contributions guided by the need to deliver collectively the EU target.”<sup>5</sup>

9. As part of its international commitments to climate change mitigation, the EU has proposed that greenhouse gas emissions be reduced by ‘at least’ 40% by 2030 (from 1990 levels). The use of the term ‘at least’ allows for the target to be increased following the December 2015 United Nations Climate Change Conference<sup>6</sup>, although this would be resisted by a number of Member States. The EU has also set an objective to continue reducing emissions so that by 2050 they are 80–95% below 1990 levels. This decarbonisation pathway will have a transformative impact on the energy sector, requiring significant infrastructure investment, the deployment of new technologies on a large scale and the adaptation of many existing business models.
10. In February 2015 the Commission published a Communication setting out its vision for an Energy Union, taking account of targets, which had already been agreed, and seeking to integrate them with wider policy goals. In June 2015 the Energy Council called on the Commission to:

“rapidly present initiatives on the governance system of the Energy Union in line with the ... March 2015 and ... October 2014 European Council conclusions, including guidelines on regional co-operation, to be developed swiftly and endorsed by the TTE (Energy) Council and reported to the European Council in December 2015.”<sup>7</sup>

It is clear that energy governance is high on the European political agenda.

11. In November 2015 Commissioner Šefčovič, Vice President and Commissioner for Energy Union, launched the Communication on the State of the Energy Union 2015.<sup>8</sup> This detailed the progress made by the EU as a whole and by individual Member States in meeting agreed objectives and targets. On governance, it noted that “the Energy Union needs a reliable and transparent governance process, anchored in legislation, to make sure that energy-related actions at European, regional, national and local level all contribute to the Energy Union’s objectives”. It also proposed a comprehensive timetable for the development of National Energy and Climate Plans, which is to conclude in 2018.
12. On 26 November 2015, the Energy Council adopted conclusions on energy governance which included a number of key recommendations (see Box 1).

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5 European Council conclusions: On 2030 Climate and Energy Policy Framework, October 2014: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/145397.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/145397.pdf) [Accessed 3 December 2015]

6 The content of this report does not reflect the developments of the December 2015 United Nations Climate Change Conference.

7 Transport, Telecommunications and Energy Council conclusions: On the implementation of the Energy Union: empowering consumers and attracting investments in the energy sector, June 2015: <http://data.consilium.europa.eu/doc/document/ST-9073-2015-INIT/en/pdf> [Accessed 3 December 2015]

8 Communication from the Commission: State of the Energy Union 2015, [COM \(2015\) 572](#)

### Box 1: Energy Council, November 2015

The Energy Council confirmed that the governance system “will be an essential tool for the efficient and effective construction of the Energy Union and the achievement of its objectives”. The Council also concluded that the National Energy and Climate Plans “will serve as the reference points for monitoring the achievement of all EU energy policy objectives and targets”. In order to achieve this the governance system will:

- include planning and reporting obligations and provide for a consistent and transparent overview of the state of the Energy Union;
- provide a timely assessment and forecast as regards the fulfilment of EU energy policy objectives and agreed climate and energy targets.

The Council noted that “The governance system will take into account the different nature and scope of binding, EU-binding or indicative 2030 climate and energy targets”, and that “it will be accompanied by reviewing and developing legislation related to emissions reduction, energy efficiency and renewables to underpin the agreed 2030 targets”.

The Council conclusions also noted that regional co-operation had proved a key instrument for meeting existing policy objectives and that it needed to be incentivised.

Source: Transport, Telecommunications and Energy Council conclusions: *The Governance System of the Energy Union, November 2015*: <http://data.consilium.europa.eu/doc/document/ST-14459-2015-INIT/en/pdf> [Accessed 3 December 2015]

#### The inquiry and the Committee’s work

13. In this inquiry we have sought to cast light on energy governance by considering two case studies: capacity markets and renewable energy targets. We have also looked ahead to define the characteristics of a healthy governance framework, making recommendations to both the UK Government and European Commission. In our 2013 report, *No Country is an Energy Island: Securing Investment for the EU’s Future*<sup>9</sup>, we argued for longer term policy making, increased interconnection and a much more ambitious investment strategy for the EU’s energy framework. Earlier this year, our report *The North Sea under pressure: is regional marine co-operation the answer?*<sup>10</sup> argued for renewed efforts to overcome the regulatory barriers preventing greater cross-border energy co-operation in the North Sea. This report on EU energy governance continues these themes and calls for clear stakeholder and regional engagement, greater clarity over the enforcement of EU targets and longer term efforts to meet energy and climate energy goals. It also aims to bring the question of governance to wider public attention and to give a challenging reality check to policy makers who champion high-level agreements which gather political momentum, but who fail to consider their full implications.
14. The inquiry did not address the content of National Energy and Climate Plans, nor did it reflect on the merits of the various national energy mixes of Member States. Instead, we offer modest and discrete conclusions and recommendations to the European Commission and Member States,

9 European Union Committee, *No Country is an Energy Island: Securing Investment for the EU’s Future*, (14th Report, Session 2012–13, HL Paper 161)

10 European Union Committee, *The North Sea under pressure: is regional marine co-operation the answer?*, (10th Report, Session 2014–15, HL Paper 137)

including the UK Government, as energy governance policy continues to take shape.

15. While this report is made to the House, it is also aimed at a wide range of policymakers and others, within the UK and across the EU as a whole. We trust that the Commission and the European Council will take note of our report, and we look forward to the Commission's response in the context of the ongoing political dialogue between the Commission and national parliaments. It is particularly pleasing to be able to send our findings to Commissioner Maroš Šefčovič, who met members of the Energy and Environment Sub-Committee in July 2015 to discuss the inquiry and the wider Energy Union Package.
16. We issued our Call for Evidence in September 2015 and held a stakeholder seminar in November 2015. A note of this seminar is given in Appendix 4. We received 23 pieces of written evidence and heard oral evidence from Andrea Leadsom MP, Minister of State at the Department of Energy and Climate Change and Tim Abraham, Head of European Policy at the same department.
17. The members of the Energy and Environment Sub-Committee who carried out the inquiry are listed in Appendix 1; their declared interests are also listed. The Call for Evidence is given in Appendix 3. We are grateful for the written evidence that was submitted to the inquiry; the respondents are shown in Appendix 2. All evidence is published online.
18. We are also grateful to Antony Froggatt, who acted as Specialist Adviser to the inquiry.
19. **We make this report to the House for debate.**

## CHAPTER 2: A COMMON APPROACH: THE CHALLENGES

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20. This chapter will use two case studies, capacity markets and renewable energy targets, to demonstrate emerging areas of tension and disagreement, as well as the advantages and opportunities associated with a common approach to EU energy governance. It will also highlight the implications for investors and the important needs of consumers.

### Differing visions

21. As became clear during our stakeholder seminar, Member States have radically different visions of what an EU energy governance framework should look like and how it should be brought about. The UK Government, while largely supporting the Energy Union, has been clear that there should always be a degree of flexibility in EU energy policy to allow Member States to meet their differing national demands and retain the responsibility for deciding their energy mix. Andrea Leadsom MP, Minister of State at the Department of Energy and Climate Change told us:

“The Government are very supportive of the development of the energy union. Effectively implemented, it should deliver the competitive, interconnected and fully functioning single energy market that should provide good value for money for consumers in the UK and across the EU. I can assure the Committee that, as we move towards the UK presidency, we will be active in pushing it forward. But—there is always a ‘but’—the energy union must not be a straitjacket for Member States. We are very clear that it must respect Member States’ rights to determine their own energy mix and not constrain those policy choices that are best done at the national level, reflecting national circumstances and priorities.”<sup>11</sup>

22. The reference to the UK presidency of the Council of the European Union, which is to take place between July and December 2017, is noteworthy, not least in the context of the forthcoming referendum on the UK’s continued membership of the EU.
23. The Minister went on to explain that the main focus of UK Government policy was energy security:

“The be-all and end-all purpose of DECC—the Department of Energy and Climate Change—is to keep the lights on, while decarbonising at the lowest cost to consumers. Ultimately, keeping the lights on is our complete focus, day in, day out. Keeping the lights on is non-negotiable. Energy security is absolutely our top priority.”<sup>12</sup>

24. Of course energy security is a focus for all Member States, particularly those whose geography makes them naturally more dependent on external energy sources for their energy supply, but how energy security is perceived varies enormously. The domestic energy policies of Germany and Poland illustrate this point. The growth of the renewables sector in Germany is sizeable<sup>13</sup>, while in Poland simply transposing the 2009 Renewable Energy Directive, which contains the 2020 commitments, into national law proved

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11 Q1

12 Q3

13 Written evidence from Greenpeace ([EGV0020](#))

to be problematic.<sup>14</sup> Germany is not as dependant on Russian gas as Poland, and Poland has traditionally been more dependent on its coal reserves than Germany. These differing perspectives were clearly articulated at the stakeholder seminar. On the wider subject of energy and climate policy, one set of respondents commented:

“Newer Member States like Bulgaria and Romania have limited support and capability to consider greenhouse gas emissions as part and parcel of energy governance at the national level. In many respects, greenhouse gas reduction policy is considered an external issue introduced by EU Directives and Policy.”<sup>15</sup>

Differing levels of commitment and engagement on the part of different Member States will always be rooted in differing national energy mixes and geopolitical situations. An energy governance framework that neglects such realities will never command support or function adequately.

25. **The differing domestic political situations and energy mixes of Member States result in significant differences in the relative priority afforded to safeguarding energy security, sustainability and competitiveness. Consequently, Member States’ visions of an EU energy governance framework are enormously varied. Shifts in the foci of Member States’ policies may be caused by both internal factors, such as domestic fuel prices, and external factors, such as a geopolitical crisis that threatens energy security.**

#### **Capacity markets and market design**

26. Security of supply is, as we have outlined above, a key concern for the UK Government. Security of supply encompass both the dangers associated with over reliance on external energy supplies and the need to ensure that national energy infrastructure is able to guarantee a continuous and affordable supply of energy to the networks. The Government has sought to address the latter of these concerns, in part, through the development of the UK capacity market, part of the Electricity Market Reform (EMR) framework established by the Energy Act 2013. This seeks to secure future energy supply from energy providers through a series of capacity auctions, which will involve payments based not only on units of electricity sold, but also on the installed capacity which is on the grid. As the Minister explained:

“In the UK, as you know, we have introduced the capacity market, as have a number of EU Member States, deliberately to address the fact that, with the increase of intermittent renewables producing power for the network in our different countries, we want to be assured of power supplies. The capacity market will provide that security of energy supply that we want to see.”<sup>16</sup>

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14 Written evidence from IEEP ([EGV0017](#))

15 Written evidence from Dr. Simona Davidescu, Dr Ralitsa Hiteva, Dr. Tomas Maltby ([EGV0006](#))

16 [Q2](#)

## Box 2: Capacity markets

Capacity markets or mechanisms are a set of measures taken to ensure that electricity supply can match demand in the medium and long term. Typically, capacity mechanisms offer additional rewards to capacity providers, on top of income obtained by selling electricity on the market, in return for maintaining existing capacity or investing in new capacity needed to guarantee security of electricity supplies. Potentially, capacity mechanisms can support not only power generation but also demand response measures, for example, incentives to households and businesses to reduce electricity consumption at peak times.

Source: European Commission press release, 'State Aid: Commission launches sector inquiry into mechanisms to ensure electricity supplies', April 2015: [http://europa.eu/rapid/press-release\\_IP-15-4891\\_en.htm](http://europa.eu/rapid/press-release_IP-15-4891_en.htm) [Accessed 1 December 2015]

27. The UK capacity market is the first to allow the participation of other Member States in capacity auctions and, after examination, has achieved EU state aid approval. As DECC explained:

“One area where we are particularly keen on working with other Member States is how to open capacity markets to non-GB participation. We are the first EU Member State to allow interconnection to participate in our capacity market. Interconnectors will participate directly in the capacity auctions from 2015 and hold capacity obligations in a way similar to other capacity providers.”<sup>17</sup>

28. Although external participation through increased interconnection may create a more integrated internal energy market, the implications should be considered. As E3G explained:

“As EU energy markets continue to integrate, they are becoming increasingly interdependent ... It also means ... that it becomes increasingly important for any market interventions to be done in a coordinated and predictable fashion, or they will be liable to deliver perverse results.”<sup>18</sup>

E3G described the possible results as a:

“wasteful and uneconomic over-procurement of resources ... consumers in countries with capacity mechanisms ... effectively cross-subsidising the energy security of consumers in countries without such mechanisms ... and the pushing up [of] the overall costs of decarbonisation across the EU.”<sup>19</sup>

29. The debate highlights the degree to which European capacity markets should be connected and the extent to which they should be coordinated through regulation and market design. A more co-ordinated approach could make for a more cost effective delivery of energy for consumers, including potential EU-wide cost savings of €40–70 billion per year by 2030.<sup>20</sup> However, questions have been raised about the extent to which co-ordination will be required and about the mechanisms needed to enable Member States to cope with simultaneous stress events (see Box 3). Clear political agreement

17 Written evidence from DECC (EGV0001)

18 Written evidence from E3G (EGV0018)

19 Written evidence from E3G (EGV0018)

20 Written evidence from E3G (EGV0018)



between connected Member States and technical agreement on co-operation between Transmission System Operators are necessary if these obstacles are to be overcome.<sup>21</sup>

### Box 3: Stress events

The power system will become stressed when supply is insufficient to meet demand in particular localities. Interconnectors play an important role in the resilience of the power network because in times of system stress, with lower supply or higher demand than expected, electricity can be imported from neighbouring markets. However, the effectiveness of interconnectors could be limited by simultaneously high demand or low supply capabilities amongst interconnected regions. As the House of Lords Science and Technology Committee concluded, “There is a worrying lack of clarity about what options exist if a number of interconnected countries experience system stress simultaneously.”<sup>22</sup> The European Network of Transmission System Operators for Electricity (ENTSO-E) has been mandated by the EU to prepare common adequacy assessment on both the regional and EU level as a means of developing better cross-border planning.

30. Energy UK and EDF Energy argued that a common framework for cross-border participation in capacity markets would further the internal energy market and create clearer investment signals:

“There would be benefit to the UK and other EU countries developing capacity markets in establishing a common framework for cross-border participation in capacity mechanisms. Such a framework should be consistent with the development of the European single market and should encourage an efficient level of investment in firm capacity to help each country to ensure security of supply at the lowest cost.”<sup>23</sup>

Such a common framework could also result in common security and adequacy standards, help to ensure price stability and secure availability of supply.

31. E3G argued that differing capacity market designs would unintentionally distort the single energy market:

“Uncoordinated or poorly-designed capacity mechanisms are market distorting and risk undermining the business case for demand-side resources and for interconnection.”<sup>24</sup>

ClientEarth echoed this point, stating that a governance system “can set a framework to optimise the use of national capacity mechanisms to ensure an equal playing field for energy efficiency and demand-side response, storage and interconnections, and to minimise competitive distortions.”<sup>25</sup> The possibility of greater co-ordination raises questions of regulation and specifically the role of the European Agency for the Cooperation of Energy Regulators (ACER). The Commission is expected to bring forward proposals in the areas of market design and regulation in 2016.

21 Q4 and Written evidence from Greenpeace (EGV0020)

22 Science and Technology Committee, *The Resilience of the Electricity System* (1st Report, Session 2014–15, HL Paper 121)

23 Written evidence from EDF Energy (EGV0011)

24 Written evidence from E3G (EGV0018)

25 Written evidence from ClientEarth (EGV0008)

32. National Grid argued that “whilst capacity markets may be needed in a number of Member States, they should be designed to mitigate any negative impact on the internal energy market.”<sup>26</sup> Centrica argued for flexibility in market design,<sup>27</sup> and Oil and Gas UK said that “it is important that the EU does not adopt a highly prescriptive approach which imposes a sub-optimal market design and inefficient capacity market arrangements.”<sup>28</sup>
33. E3G suggested that “capacity adequacy assessments should be carried out on a regional basis ... and require that the regional assessment forms the basis for any national capacity mechanism.”<sup>29</sup> We found E3G’s threefold argument for increased regional co-ordination persuasive:
- “First, capacity adequacy calculated nationally rather than at regional level will systematically overestimate the resources required for safe operation of the system, as it discounts available capacity in neighbouring countries. This leads to wasteful and uneconomic over-procurement of resources. Second, in an interconnected system, it does not make sense to try to maintain a higher security standard in one jurisdiction than in its neighbours. This produces perverse signals for the location of new generation, and effectively means that consumers in countries with capacity mechanisms are effectively cross-subsidising the energy security of consumers in countries without such mechanisms. Third, uncoordinated or poorly-designed capacity mechanisms are market distorting and risk undermining the business case for demand-side resources and for interconnection. This, in turn, risks pushing up the overall costs of decarbonisation across the EU.”<sup>30</sup>
34. The Renewable Energy Association argued that security of supply should not be the only consideration when designing and operating European capacity markets:
- “We believe any mechanism should address all elements of Europe’s Energy Trilemma—ensuring security of supply, value for money and low carbon supplies. We believe many such mechanisms should be improved, for example the UK’s by better supporting energy storage and demand side response capacity, and more closely enshrining value for money considerations into new contracts. It is also not acceptable that absolutely no account is made of the carbon intensity of contracted capacity in such mechanisms.”<sup>31</sup>
35. **Intelligently designed capacity markets have the potential to improve the security of supply and to reduce relative energy costs for consumers in the long term. In order to do this:**
- **a common framework at the EU level should be developed to assess the need for, and means of achieving, common adequacy standards that secure the availability of supply without escalating prices;**

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26 Written evidence from National Grid ([EGV0002](#))

27 Written evidence from Centrica ([EGV0013](#))

28 Written evidence from Oil and Gas UK ([EGV0021](#))

29 Written evidence from E3G ([EGV0018](#))

30 Written evidence from E3G ([EGV0018](#))

31 Written evidence from Renewable Energy Association ([EGV0003](#))



- **the Commission and Member States should place more emphasis on regional co-ordination to moderate over-investment in new reserve capacity, while ensuring that there is adequate capacity for the safe operation of the system as a whole;**
  - **technologies and balancing mechanisms, such as energy storage and demand side measures, should be given equal access to domestic capacity markets; and**
  - **national capacity markets should be open to cross border mechanisms such as interconnectors and non-domestic generation.**
36. **We welcome proposals that seek to achieve a greater co-ordination and harmonisation of EU capacity markets. Such proposals should aim to mitigate the distortion of competition between capacity providers and the distortion of cross-border trade to ensure adequacy of supply.**
37. Much of the evidence to this inquiry focused on the agreed EU targets for greenhouse gas emissions, renewable energy, energy efficiency and interconnection. In examining the differing opinions on these targets, we have distinguished between, on the one hand, the monitoring and reporting of progress against these targets, and on the other, enforcing them and legislating for them.

#### **Responsibility: reporting and monitoring**

38. The reporting requirements for progress against decarbonisation and renewable energy objectives are well established by the European Commission, but there has often been a tendency for this reporting to focus on carbon reduction, while other objectives, such as security and competitiveness, have been overlooked. We highlighted this tendency in our 2013 report, *No Country is an Energy Island: Securing Investment for the EU's Future*.<sup>32</sup> The State of the Energy Union report and accompanying Member State factsheets took an encouragingly holistic approach, measuring progress against each of the five aims. Given the need to monitor a range of EU objectives, there is a clear need for meaningful reporting, which may act as an early warning if progress is not being achieved. The Commission has suggested that this may be achieved through the development of a range of reference and policy scenarios.<sup>33</sup> However, we emphasise that this work should not be overly burdensome on Member States or duplicate existing reporting frameworks.
39. Many witnesses told us that the current reporting requirements should be simplified.<sup>34</sup> ClientEarth told us:
- “A simplified and streamlined planning and reporting regime that sits within a legislative framework, with binding and soft elements where necessary, is not inconsistent with Member States’ right to flexibility over their national energy mix ... The [October 2014 European Council] Conclusions ... state that the governance system will simplify and

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32 European Union Committee, *No Country is an Energy Island: Securing Investment for the EU's Future*, (14th Report, Session 2012–13, HL Paper 161)

33 Communication from the Commission: State of the Energy Union 2015, [COM \(2015\) 572 Annex 2](#)

34 Written evidence from Ecologic Institute ([EGV0016](#))

streamline the separate planning and reporting strands (those dealing with renewable energy and energy efficiency etc.); with greater emphasis henceforth being placed on Member States' National Energy and Climate Plans (National Plans). If this simplifies and reduces the administrative burden under current reporting regimes, it is to be welcomed."<sup>35</sup>

In this light we welcome undertakings in the Commission Work Programme 2016 to begin the Energy Union Reporting initiative under the Regulatory Fitness and Performance (REFIT) programme, which will conduct evaluations in the area of energy and climate policy in order to assess the consistency and administrative burden of reporting obligations.<sup>36</sup>

40. The Commission's proposed National Energy and Climate Plans are seen by some as the basis for a strengthened governance framework. EDF Energy supported such a move, suggesting that plans create policy stability for investors:

"All Member States should have credible long-term plans for meeting both EU and national energy and climate objectives. These plans should be regularly reviewed and updated as necessary to ensure that they remain on course, while taking full account of the importance of policy stability for investors."<sup>37</sup>

The Department of Energy and Climate Change insisted that Member States should retain ownership of their National Plans,<sup>38</sup> and Vattenfall cautioned against the scope of the plans clashing with Member States' freedom to determine their national energy mix.<sup>39</sup>

41. E3G explained that the UK Government should not regard the lack of an EU-wide binding renewables target as a challenge, but rather as an opportunity:

"The UK will need to deploy considerable volumes of renewable energy if it is to meet its own domestic obligations under the Climate Change Act—particularly as nuclear power and CCS have proven slower to deploy than previously assumed. It is unlikely that the UK's proportion of a 27% EU-wide RES target would be more than it would need to implement domestically in any case. The UK national interest has little to gain by stripping the 'EU-binding' renewables target of all content: instead the UK should focus on how to use the target and associated governance arrangements to support the UK's own decarbonisation goals, and to create a level playing field in Europe."<sup>40</sup>

It was therefore disappointing to see that current UK energy policy announcements do not yet reflect the distinct aspects of the Energy Union. The speech given by Amber Rudd MP, the Secretary of State for Energy and Climate Change, on 18 November 2015 only made a passing reference to the Energy Union, and then rapidly resumed a domestic focus:

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35 Written evidence from ClientEarth ([EGV0008](#))

36 Communication from the Commission: Commission Work Programme 2016, No time for business as usual, [COM \(2015\) 610 Annex 2](#)

37 Written evidence from EDF Energy ([EGV0011](#))

38 Written evidence from DECC ([EGV0001](#))

39 Written evidence from Vattenfall ([EGV0009](#))

40 Written evidence from E3G ([EGV0018](#))

“That is why the Prime Minister has been calling for an ambitious Energy Union for Europe—to save hardworking families money and to guarantee energy supplies for future generations. So we welcome the report out from the EU today on the ‘State of the Energy Union’ which lays out the steps Europe needs to take to strengthen our partnership. And I can say to Europe that Britain stands ready to help make this vision a reality. This is an example of where we can achieve more working together than alone, and where Europe can adapt to help its citizens where it matters to them. But we do need to do more at home.”<sup>41</sup>

42. Guidance from the Commission on the National Energy and Climate Plans was published alongside the State of the Energy Union report, and calls on Member States to structure their planning around the five dimensions of the Energy Union:

“The national plan should take a holistic approach and address the five dimensions of the Energy Union in an integrated way which recognises the interactions between the different dimensions ... While Member States have the right to develop policies suitable to national circumstances, national plans should set out the direction of national energy and climate objectives and policies in a way that is coherent with delivering on the commonly agreed objectives of the Energy Union, in particular the 2030 targets (greenhouse gas emission reductions, renewable energy, energy efficiency and electricity interconnections) agreed by the European Council in October 2014.”<sup>42</sup>

43. ClientEarth and E3G suggested that an independent body be established to monitor progress against the agreed targets<sup>43</sup>:

“A collection of 28 national plans developed in isolation and with no feedback loops would make little difference. Instead, it is important that collective assessment is made of the national plans, and the outcomes of this assessment are used to ensure more robust decision-making at both national and European level ... This function could most usefully be fulfilled by the creation of an independent Climate and Energy Observatory tasked with supporting member state climate and energy policy development rather than transferring further powers to the European Commission.”<sup>44</sup>

44. As an alternative to a new, independent observatory, ClientEarth suggested bolstering the powers of the European Environment Agency (EEA):

“There is also a case to be made for an enhanced role for participation of independent experts to assist the Institutions, including the Commission, in driving policy forward. This could be achieved through providing an enhanced role for an existing body (e.g. the European Environment Agency).”<sup>45</sup>

45. In contrast, the Minister told us:

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41 Speech given by Amber Rudd MP, Secretary of State for Energy and Climate Change, A new direction for UK energy policy, 18 November 2015: <https://www.gov.uk/government/speeches/amber-rudds-speech-on-a-new-direction-for-uk-energy-policy> [Accessed 20 November 2015]

42 Communication from the Commission: State of the Energy Union 2015, [COM \(2015\) 572 Annex 2](#)

43 Written evidence from ClientEarth ([EGV0008](#)) and E3G ([EGV0018](#))

44 Written evidence from E3G ([EGV0018](#))

45 Written evidence from ClientEarth ([EGV0008](#))

“I would always question additional bodies. To the earlier point about regulation, that is another budget that has to be divvied up. Someone has to pay for it, it is a lot more staff, they come up with their own rules, then the Commission comes up with its rules, there is potentially a clash and someone has to resolve those issues. I always think that, ideally, we do better to work with what we have.”<sup>46</sup>

46. **We welcome the introduction of National Energy and Climate Plans, which will help to streamline and add clarity to reporting requirements. The Plans will help to present an overall picture of progress at a pan-EU level against the five dimensions of the Energy Union: energy security; the completion of the internal energy market; energy efficiency; emissions reduction; and research and innovation.**
47. **We also welcome the proposal for Member States to provide integrated projections to the Commission covering both reference and policy scenarios, which will give an early indication of progress against EU level targets.**
48. **The UK Government should be transparent, timely and comprehensive in reporting on its own progress against each of the dimensions of the Energy Union as well as against its own additional domestic targets, such as those required by the Climate Change Act 2008, Fuel Poverty Objectives and the creation of a more competitive retail energy market.**
49. **We agree that there should be an overall assessment mechanism for the 28 National Energy and Climate Plans in order to ensure consistency, but we are not persuaded by the arguments for a new institution or monitoring body. Such assessment should be open and transparent and should be undertaken by the Commission itself, or by an existing body such as the European Environment Agency.**

#### **Responsibility: enforcement and legislation**

50. The future legislative landscape is uncertain, and the extent to which new EU legislation will be necessary to create an EU-wide system of energy governance is hard to predict. Member State governments will need to be incentivised to take action and the Commission should be clear about what the enforcement mechanisms are if collective progress is insufficient. Binding targets accompanied by clear legislative proposals continue to divide opinion.
51. The implications of greenhouse gas reduction targets for the UK’s renewable energy mix in 2030 have been the subject of much discussion, and what they will mean in practice has been covered by the Committee on Climate Change.<sup>47</sup> Of course, the different targets which have been agreed, such as the greenhouse gas emissions target, the renewables target and the energy efficiency target, have very different legal status, but there was a clear hesitancy on the part of the UK Government to follow through the implications of a binding EU-level renewables target. The Minister told us:

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46 [Q7](#)

47 Committee on Climate Change, *The Fifth carbon budget report : The next step towards a low-carbon economy* (November 2015): <https://d2kjj2p8nxa8ft.cloudfront.net/wp-content/uploads/2015/11/Committee-on-Climate-Change-Fifth-Carbon-Budget-Report.pdf> [Accessed 3 December 2015]

“The core theme running through my evidence is that member states should be given every bit of leeway to determine their own energy mix and their own way of meeting their legally binding targets. That should not be either second-guessed or presided over by some kind of supra-EU authority telling them what to do.”<sup>48</sup>

The Department of Energy and Climate Change echoed this when it said that “the Government does not currently foresee a need for the governance system to be enshrined in legislation.”<sup>49</sup>

52. The Royal Society for the Protection of Birds, on the other hand, insisted that the governance mechanism should be robust:

“In the absence of effectively binding national targets for energy saving and renewables, the governance mechanism will need to be very robust if it is to ensure delivery of the targets in a way that is fit for purpose, affordable and acceptable to the public.”<sup>50</sup>

53. The wording of the European Council conclusions in October 2014 was a clear political compromise, with the renewables target binding on the EU but not on individual Member States, with the failure to articulate an enforcement mechanism and with the inherent vagueness of the term ‘at least’. Opinion is clearly divided over the consequences of failing to meet the 27% renewables target and the question of enforcement.
54. Some witnesses favoured Member State targets,<sup>51</sup> while others were firmly opposed.<sup>52</sup> Nevertheless, as long as a binding target lacks a method of enforcement, the integrity of the political agreement will be seriously compromised<sup>53</sup> and the confidence of investors will be weakened.<sup>54</sup> Without ‘teeth’ there will always be a danger of certain Member States ‘freeriding’, and there will be less incentive for other Member States to be ambitious.<sup>55</sup>
55. **It is clear that legislative proposals in the area of governance would be met with mixed reactions. While unnecessary legislative proposals are to be discouraged, the Commission should not be deterred from proposing measures seeking to guarantee commitments that have already been made, such as the 2030 renewables target.**
56. **The EU-wide binding renewables target of at least 27% by 2030 has been agreed with the intention of increasing the diversity of supply and reducing the EU’s dependency on imported and domestic fossil fuels. But without an effective, transparent, accountable, and legitimate governance mechanism, the significance of the target is considerably diminished, the incentive to Member States to be ambitious is weakened, and any prospect of achieving the overall objective is jeopardised.**

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48 [Q7](#)

49 Written evidence from DECC ([EGV0001](#))

50 Written evidence from the Royal Society for the Protection of Birds (RSPB) ([EGV0023](#))

51 Written evidence from IEEP ([EGV0017](#))

52 Written evidence from DECC ([EGV0001](#))

53 Written evidence from E3G ([EGV0018](#))

54 Written evidence from Ecologic Institute ([EGV0016](#))

55 Written evidence from IEEP ([EGV0017](#))



### Investor uncertainty and the importance of consumers

57. Although there has been a great deal of discussion concerning governance, clear policy direction is lacking. Moreover, there are areas where, despite agreement being reached, there is insufficient political will to implement policy. Failure to commit to long term planning leads to underinvestment in the necessary infrastructure and technology required to complete the internal energy market, increase interconnection, decarbonise and secure supply. Both the Commission and the Council (and therefore the UK Government) have a role in sending much clearer signals to investors. Effecting greater policy certainty should be a key goal of future governance announcements.
58. As E3G told us:
- “Erratic regulatory regimes and weak governance raise the risk profile for investments and as a result push up financing costs and energy costs for consumers. This is not a problem that can be resolved within national boundaries alone: the interconnected nature of the European energy system means that states are affected by the decisions of their neighbours. In this context, it is in the interest of all member states to have a stable and workable governance regime in place that enables predictability of outcomes. This requires a governance system underpinned by a firm legal basis.”<sup>56</sup>
59. Energy developments in one region are increasingly affecting energy decisions taken in another. For example, in March 2011 the German government opted to suspend the operation of eight of its oldest nuclear power plants following the Fukushima accident in Japan. Another example is the proposed Nord Stream 2 gas pipeline from Russia to Germany, through the Baltic Sea.

#### Box 4: Nord Stream 2 gas pipeline

The Nord Stream 2 pipeline would run from Russia to Germany, through the Baltic Sea. The project is jointly owned by Gazprom (50%) with 10% each owned by Eon (Germany), Wintershall (Germany), OMV (Austria), Shell (Netherlands) and ENGIE (France).<sup>57</sup> The project has proved to be controversial because of the plan to circumvent Ukraine and central European Member States. In November 2015 Bulgaria, the Czech Republic, Estonia, Hungary, Greece, Latvia, Lithuania, Poland, Romania and Slovakia signed a joint letter calling on the Commission to block the pipeline, arguing that it was contrary to the EU’s energy diversification and security policies.<sup>58</sup>

60. As we have already noted, many have argued that the uncertainty surrounding the application at national level of the EU-wide binding 27% target has had an effect on investor confidence. Ecologic Institute argued that the existence of binding national renewable energy targets had increased “investor stability and confidence despite changes in government at national level.”<sup>59</sup> Firmer and longer term policy signals are needed.

56 Written evidence from E3G ([EGV0018](#))

57 Nord Stream 2, ‘Gazprom and ENGIE modify Nord Stream 2 shareholdings, equalizing EU-Russian ownership’: <http://www.nord-stream2.com/press-info/news/gazprom-and-engie-modify-nord-stream-2-shareholdings-equalizing-eu-russian-ownership-6/> [Accessed 3 December 2015]

58 Barbara Lewis, ‘Ten EU nations say Nord Stream gas extension not in EU interests’, *Reuters* (27 November 2015): <http://in.reuters.com/article/2015/11/27/ukraine-crisis-nordstream-idINL8N13L4MG20151127> [Accessed 3 December 2015]

59 Written evidence from Ecologic Institute ([EGV0016](#))

61. **Like all investors, those who invest in energy need clear medium and long term policy signals. The European Council should, with the Commission, present a much clearer timetable for the establishment of the energy governance framework.**
62. **Rapid and unexpected changes in policies, even if they are designed to encourage investment, create policy uncertainty and may undermine investor confidence.**
63. **The UK Government should be clear about its own renewable energy strategy and target for 2030 as part of its decarbonisation and energy security objectives. This will help create investor confidence and protect jobs at a time of uncertainty.**
64. **The European Council should not only reiterate the binding targets agreed in October 2014, but should also call on the Commission to propose monitoring and enforcement mechanisms that act as a guarantor for the agreement and ensure that Member States share the effort equitably. Maintaining the integrity of the agreement is essential for securing investor confidence.**
65. Any governance discussions should take account of all consumers, including domestic users, SMEs and heavy energy users. As the Minister explained:
- “Keeping the bills down is incredibly important for consumers. As we have seen only recently with the steel industry, which has cited energy costs as one of the reasons for its problems, it is a very real consideration. Bills for consumers and businesses must always be a vital part of our consideration.”<sup>60</sup>
66. Affordability is one of the three pillars of the energy trilemma. For business and industrial users it can determine their competitiveness, and for individuals fuel can represent a significant proportion of household expenditure. Communicating the potential benefits of cross border energy co-operation and interconnection, in terms of price as well as energy security, is important. At the same time, new technologies such as smart meters and market mechanisms such as dynamic pricing can provide individuals with the tools they need to become more active consumers.
67. The Government’s focus on real consumer priorities should not be forgotten in more elevated discussions with policy makers outside the UK. Similarly, the Commission should ensure that consumer benefits are articulated in governance proposals. Tim Abraham told us:
- “Consumers will be quite a big focus of the work that the Commission is now doing on energy markets and its market reform. Indeed, Ministers will be discussing the consumer angle of market design at the next Energy Council. I think that you will find that consumers, the effect on consumers, the potential for smart ways of helping consumers and so on will be an important plank in the energy union.”<sup>61</sup>
68. **Consumer interests should not be segregated in energy policy, and the interests of industrial, business and domestic consumers should be considered in energy governance framework discussions. The UK**

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60 [Q8](#)

61 [Q8](#)

**Government should consult stakeholders and consumers during the development of the UK's National Energy and Climate Plan.**

69. **The UK Government should go to greater lengths to explain to consumers the financial and security benefits of a more integrated EU energy market.**



## CHAPTER 3: TOWARDS A NEW GOVERNANCE FRAMEWORK

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### Recent developments

70. The recent publication of the State of the Energy Union report, the Commission's guidance on the preparation of Member State National Energy and Climate Plans, and the individual Member State fact sheets, are all positive developments. It is encouraging to see the Commission taking a broad look at progress towards EU-wide targets and longer term goals and measuring progress against each of the Energy Union dimensions.
71. The Commission's observation that only one third of Member States have integrated energy and climate plans in place for the period beyond 2020<sup>62</sup> is striking, and should be remedied through the National Energy and Climate Plans.
72. The November Energy Council conclusions noted the importance of a reliable and transparent governance system to monitor and forecast all energy and climate policy objectives and targets. Disappointingly, the conclusions did not articulate the means by which those objectives and targets are to be met when individual Member State efforts fall short.

### The role of regional co-operation

73. Our recent report on regional marine co-operation in the North Sea<sup>63</sup> underlined the importance of voluntary co-operation on energy projects at a regional level. The benefits of working together on infrastructure projects such as the North Seas Countries' Offshore Grid initiative (NSCOGI) are clear, but the concept of regional targets in areas such as renewables or interconnection has not been fully explored. Regional co-operation should be seen as an important feature of a governance framework in its own right, but also as a means of achieving intermediate progress towards longer term goals.
74. The Commission guidance on the preparation of Member State National Energy and Climate Plans states that: "national plans should ... from the outset build on regional consultation."<sup>64</sup> We believe that regional co-operation should not just involve cross-border discussions, but should involve regions within Member States such as the devolved administrations in the UK.
75. More recently, the November Energy Council noted that:
 

"enhanced regional co-operation and consultation on issues such as these [infrastructure development, energy and climate policy objectives], where appropriate, will become a cross-cutting and important aspect of the future governance system of the European Union and needs to be facilitated or incentivised."<sup>65</sup>

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62 Communication from the Commission: State of the Energy Union 2015, [COM \(2015\) 572](#)

63 European Union Committee, *The North Sea under pressure: is regional marine co-operation the answer?*, (10th Report, Session 2014–15, HL Paper 137)

64 Communication from the Commission: State of the Energy Union 2015, [COM \(2015\) 572 Annex 2](#)

65 Transport, Telecommunications and Energy Council conclusions: The Governance System of the Energy Union, November 2015: <http://data.consilium.europa.eu/doc/document/ST-14459-2015-INIT/en/pdf> [Accessed 3 December 2015]

### Achieving a balance

76. The creation of an energy governance framework that can accommodate different political visions will be challenging. It will be difficult to respect national sovereignty while being ambitious to meet the objectives of the Energy Union, including the targets on greenhouse gas emissions, renewable energy and energy efficiency. In the short term, progress will probably be limited to areas of current agreement, such as reporting mechanisms, rather than those of current disagreement, such as enforcement mechanisms. If the term ‘binding’ is to have credibility, Member States, including the UK, will have to honour international and EU commitments through their own domestic actions. Moreover, non-binding targets should not be forgotten, such as the indicative 20% energy efficiency target and the aspirational 15% interconnection target.
77. EU financial capabilities should be strategically focused to help ensure that agreed EU targets are met. This could include finance made available through the European Structural and Investment Funds, the European Fund for Strategic Investment or the European Investment Bank. For example, further EU funding is likely to be needed in some Member States, including the UK, if the 15% electricity interconnection target for 2030 is to be met.
78. Looking to the future, types of governance framework could vary with different timescales. For example, a governance framework looking forward to 2030 may demand features that a framework for 2050 may not require. The Carbon Capture and Storage Association emphasised the importance of a long term perspective was important:
- “The new governance mechanism should therefore require Member States to develop National Climate and Energy Plans not only in reference to 2030 but also incorporating a 2050 perspective into all applicable reference scenarios. This will increase the credibility of the Plans and encourage Member States to consider how they will decarbonise a broader range of sectors beyond electricity generation.”<sup>66</sup>
- Policy makers should be flexible in approach to timescales but when a target is agreed they should be clear about their obligations.
79. **The recent publication of the State of the Energy Union report, the Commission’s guidance on the preparation of Member State National Energy and Climate Plans, and the individual Member State fact sheets, are all positive developments. It is encouraging to see the Commission taking a broad look at EU-wide progress against agreed targets and measuring progress against each of the Energy Union dimensions.**
80. **We call on the UK Government and other Member States to meet the Commission’s deadline for the preparation of the first National Energy and Climate Plans by 2018.**
81. **Regional co-operation should be far more prominent in governance discussions. The benefits of communicating and co-operating are clear, and the Commission should require Member States to demonstrate that this has taken place in the preparation of their National Energy and Climate Plans.**

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66 Written Evidence from the Carbon Capture and Storage Association (CCSA) ([EGV0014](#))

82. **The Commission should ensure that proposals for a future energy governance framework include legal clarity, a respect for Member State sovereignty, a focus on security of supply, commitment to the consumer, real ambition for decarbonisation and increased regional co-operation.**
83. **The Commission and Member States should work together on a governance framework that recognises the different timescales that are involved and ensures policy coherence between short and long term targets and objectives.**

## SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

1. The differing domestic political situations and energy mixes of Member States result in significant differences in the relative priority afforded to safeguarding energy security, sustainability and competitiveness. Consequently, Member States' visions of an EU energy governance framework are enormously varied. Shifts in the foci of Member States' policies may be caused by both internal factors, such as domestic fuel prices, and external factors, such as a geopolitical crisis that threatens energy security. (Paragraph 25)
2. Intelligently designed capacity markets have the potential to improve the security of supply and to reduce relative energy costs for consumers in the long term. In order to do this:
  - a common framework at the EU level should be developed to assess the need for, and means of achieving, common adequacy standards that secure the availability of supply without escalating prices;
  - the Commission and Member States should place more emphasis on regional co-ordination to moderate over-investment in new reserve capacity, while ensuring that there is adequate capacity for the safe operation of the system as a whole;
  - technologies and balancing mechanisms, such as energy storage and demand side measures, should be given equal access to domestic capacity markets; and
  - national capacity markets should be open to cross border mechanisms such as interconnectors and non-domestic generation. (Paragraph 35)
3. We welcome proposals that seek to achieve a greater co-ordination and harmonisation of EU capacity markets. Such proposals should aim to mitigate the distortion of competition between capacity providers and the distortion of cross-border trade to ensure adequacy of supply. (Paragraph 36)
4. We welcome the introduction of National Energy and Climate Plans, which will help to streamline and add clarity to reporting requirements. The Plans will help to present an overall picture of progress at a pan-EU level against the five dimensions of the Energy Union: energy security; the completion of the internal energy market; energy efficiency; emissions reduction; and research and innovation. (Paragraph 46)
5. We also welcome the proposal for Member States to provide integrated projections to the Commission covering both reference and policy scenarios, which will give an early indication of progress against EU level targets. (Paragraph 47)
6. The UK Government should be transparent, timely and comprehensive in reporting on its own progress against each of the dimensions of the Energy Union as well as against its own additional domestic targets, such as those required by the Climate Change Act 2008, Fuel Poverty Objectives and the creation of a more competitive retail energy market. (Paragraph 48)
7. We agree that there should be an overall assessment mechanism for the 28 National Energy and Climate Plans in order to ensure consistency, but we are not persuaded by the arguments for a new institution or monitoring body. Such assessment should be open and transparent and should be undertaken

by the Commission itself, or by an existing body such as the European Environment Agency. (Paragraph 49)

8. It is clear that legislative proposals in the area of governance would be met with mixed reactions. While unnecessary legislative proposals are to be discouraged, the Commission should not be deterred from proposing measures seeking to guarantee commitments that have already been made, such as the 2030 renewables target. (Paragraph 55)
9. The EU-wide binding renewables target of at least 27% by 2030 has been agreed with the intention of increasing the diversity of supply and reducing the EU's dependency on imported and domestic fossil fuels. But without an effective, transparent, accountable, and legitimate governance mechanism, the significance of the target is considerably diminished, the incentive to Member States to be ambitious is weakened, and any prospect of achieving the overall objective is jeopardised. (Paragraph 56)
10. Like all investors, those who invest in energy need clear medium and long term policy signals. The European Council should, with the Commission, present a much clearer timetable for the establishment of the energy governance framework. (Paragraph 61)
11. Rapid and unexpected changes in policies, even if they are designed to encourage investment, create policy uncertainty and may undermine investor confidence. (Paragraph 62)
12. The UK Government should be clear about its own renewable energy strategy and target for 2030 as part of its decarbonisation and energy security objectives. This will help create investor confidence and protect jobs at a time of uncertainty. (Paragraph 63)
13. The European Council should not only reiterate the binding targets agreed in October 2014, but should also call on the Commission to propose monitoring and enforcement mechanisms that act as a guarantor for the agreement and ensure that Member States share the effort equitably. Maintaining the integrity of the agreement is essential for securing investor confidence. (Paragraph 64)
14. Consumer interests should not be segregated in energy policy, and the interests of industrial, business and domestic consumers should be considered in energy governance framework discussions. The UK Government should consult stakeholders and consumers during the development of the UK's National Energy and Climate Plan. (Paragraph 68)
15. The UK Government should go to greater lengths to explain to consumers the financial and security benefits of a more integrated EU energy market. (Paragraph 69)
16. The recent publication of the State of the Energy Union report, the Commission's guidance on the preparation of Member State National Energy and Climate Plans, and the individual Member State fact sheets, are all positive developments. It is encouraging to see the Commission taking a broad look at EU-wide progress against agreed targets and measuring progress against each of the Energy Union dimensions. (Paragraph 79)

17. We call on the UK Government and other Member States to meet the Commission's deadline for the preparation of the first National Energy and Climate Plans by 2018. (Paragraph 80)
18. Regional co-operation should be far more prominent in governance discussions. The benefits of communicating and co-operating are clear, and the Commission should require Member States to demonstrate that this has taken place in the preparation of their National Energy and Climate Plans. (Paragraph 81)
19. The Commission should ensure that proposals for a future energy governance framework include legal clarity, a respect for Member State sovereignty, a focus on security of supply, commitment to the consumer, real ambition for decarbonisation and increased regional co-operation. (Paragraph 82)
20. The Commission and Member States should work together on a governance framework that recognises the different timescales that are involved and ensures policy coherence between short and long term targets and objectives. (Paragraph 83)

## APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTEREST

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### Members

Baroness Bakewell of Hardington Mandeville  
 Lord Bowness  
 Lord Cunningham of Felling  
 Lord Curry of Kirkharle  
 Viscount Hanworth  
 Lord Krebs  
 Lord Rooker  
 Baroness Scott of Needham Market (Chairman)  
 Lord Selkirk of Douglas  
 Lord Trees  
 Viscount Ullswater  
 Baroness Wilcox

### Declarations of Interest

Baroness Bakewell of Hardington Mandeville  
*No relevant interests declared*

Lord Bowness  
*No relevant interests declared*

Lord Cunningham of Felling  
*No relevant interests declared*

Lord Curry of Kirkharle  
*Chair, Better Regulation Executive*

Viscount Hanworth  
*Shareholding in Royal Dutch Shell Plc*

Lord Krebs  
*Deputy Chair, Nuffield Foundation*  
*Member, Committee on Climate Change*  
*Chair, Adaptation Sub-Committee (Sub-Committee of Committee on Climate Change)*  
*Chair, Oxford Risk Ltd*  
*Scientific Advisor, Marks & Spencer Plc*  
*Scientific Advisor, Ajinomoto Inc*  
*Scientific Advisor, Wellcome Trust*  
*Fellow of the Royal Society*  
*Fellow, Academy of Medical Sciences*

Lord Rooker  
*No relevant interests declared*

Baroness Scott of Needham Market (Chairman)  
*No relevant interests declared*

Lord Selkirk of Douglas  
*Chairman of Directors, and Director, Douglas-Hamilton (D Share) Ltd*  
*(Potential interest in certain wind turbines)*  
*Director, Douglas-Hamilton Investments Ltd which has a 50% interest in Douglas-Hamilton (D Share) Ltd*

Lord Trees  
*No relevant interests declared*

Viscount Ullswater

*Paid Director and Trustee of farming estate company in Cumbria  
Income derived from farming and forestry, quarrying, wind turbines, fishing  
rights, agri-environmental schemes.*

*Life member of SONE (Supporters of Nuclear Energy)*

*Member of the CLA (Country Land and Business Association)*

Baroness Wilcox

*No relevant interests declared*

The following Members of the European Union Select Committee attended the meeting at which the report was approved:

Baroness Armstrong of Hill Top  
Lord Blair of Boughton  
Lord Borwick  
Lord Boswell of Aynho (Chairman)  
Lord Davies of Stamford  
Baroness Falkner of Margravine  
Lord Green of Hurstpierpoint  
Lord Jay of Ewelme  
Lord Liddle  
Lord Mawson  
Baroness Prashar  
Lord Trees  
Lord Tugendhat  
Lord Whitty  
Baroness Wilcox

During consideration of the report the following Members declared an interest:

Lord Boswell of Aynho  
*Shareholding in E.ON*

Lord Green of Hurstpierpoint  
*Discretionary management of shareholdings by Brewin Dolphin  
Discretionary management of shareholdings by Veritas Asset Management  
Chair, International Advisory Committee of British Chambers of Commerce  
Shareholdings in a wide range of listed companies as listed in the Register of  
Members' interests*

Lord Jay of Ewelme  
*Vice Chairman, Business for New Europe  
Member, Senior European Experts Group  
Shareholding in EDF, Royal Dutch Shell and BG*

Lord Tugendhat  
*Shareholdings in Shell, BP and ETFS Commodity Securities (oil trading)*

Lord Whitty  
*Chair of Trustees, Cheshire-Lehmann Fund (charity)  
President-elect, Environmental Protection UK (charity)  
Member of the Advisory Group, National Energy Action (charity)*

A full list of Members' interests can be found in the Register of Lords Interests:  
[http://www.parliament.uk/mps-lords-and-offices/standards-and-interests/  
register-of-lords-interests/](http://www.parliament.uk/mps-lords-and-offices/standards-and-interests/register-of-lords-interests/)



The Special Advisor for the inquiry declared the following interests:

Antony Froggatt

*No relevant interests declared.*

## APPENDIX 2: LIST OF WITNESSES

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Evidence is published online at <http://www.parliament.uk/eu-energy-governance> and available for inspection at the Parliamentary Archives (020 7219 3074)

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked with \*\* gave both oral evidence and written evidence. The witness marked with \* gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

### Oral evidence in chronological order

- |    |  |                                |
|----|--|--------------------------------|
| *  | Andrea Leadsom MP, Minister of State, DECC | <a href="#"><u>QQ 1–10</u></a> |
| ** | Department of Energy and Climate Change    |                                |

### Alphabetical list of all witnesses

- |    |   |                                |
|----|---|--------------------------------|
|    | Dr Anatoule Boute   | <a href="#"><u>EGV0004</u></a> |
|    | Carbon Capture and Storage Association (CCSA)             | <a href="#"><u>EGV0014</u></a> |
|    | Centrica Plc  | <a href="#"><u>EGV0013</u></a> |
|    | ClientEarth   | <a href="#"><u>EGV0008</u></a> |
|    | Dr. Simona Davidescu, Dr Ralitsa Hiteva, Dr. Tomas Maltby | <a href="#"><u>EGV0006</u></a> |
| ** | Department of Energy and Climate Change (QQ1–10)          | <a href="#"><u>EGV0001</u></a> |
|    | E3G   | <a href="#"><u>EGV0018</u></a> |
|    | Ecologic Institute  | <a href="#"><u>EGV0016</u></a> |
|    | EDF Energy  | <a href="#"><u>EGV0011</u></a> |
|    | Energy Networks Association (ENA)                         | <a href="#"><u>EGV0007</u></a> |
|    | Energy and Utilities Alliance (EUA)                       | <a href="#"><u>EGV0005</u></a> |
|    | Energy UK   | <a href="#"><u>EGV0019</u></a> |
|    | Greenpeace  | <a href="#"><u>EGV0020</u></a> |
|    | Institute for European Environmental Policy (IEEP)        | <a href="#"><u>EGV0017</u></a> |
| *  | Andrea Leadsom MP, Minister of State, DECC (QQ 1–10)      |                                |
|    | National Grid   | <a href="#"><u>EGV0002</u></a> |
|    | Oil and Gas UK  | <a href="#"><u>EGV0021</u></a> |
|    | Renewable Energy Association (REA)                        | <a href="#"><u>EGV0003</u></a> |
|    | Renewable Energy Systems Ltd (RES)                        | <a href="#"><u>EGV0022</u></a> |
|    | Royal Society for the Protection of Birds (RSPB)          | <a href="#"><u>EGV0023</u></a> |
|    | Scottish Carbon Capture and Storage (SCCS)                | <a href="#"><u>EGV0010</u></a> |
|    | Tempus Energy Technology Ltd                              | <a href="#"><u>EGV0015</u></a> |
|    | University of Exeter Energy Policy Group                  | <a href="#"><u>EGV0012</u></a> |
|    | Vattenfall  | <a href="#"><u>EGV0009</u></a> |

## APPENDIX 3: CALL FOR EVIDENCE

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The House of Lords EU Energy and Environment Sub-Committee is conducting an inquiry into *EU Energy Governance*. The Sub-Committee seeks evidence from anyone with an interest.

EU energy governance relates to how the EU institutions and Member States interact, both formally and informally, in order to realise the energy policy objectives of the EU on the one hand and fulfil national aims on the other.

The October 2014 European Council set out a number of principles underpinning climate and energy governance. This should be “a reliable and transparent” system “without any unnecessary administrative burden [...] to help ensure that the EU meets its energy policy goals, with the necessary flexibility for Member States and fully respecting their freedom to determine their energy mix.”

The 8 June 2015 Energy Council subsequently invited the European Commission to “rapidly present initiatives on the governance system of the Energy Union [...], including guidelines on regional cooperation”. These should “be developed swiftly [...] and reported to the European Council in December 2015 as a first step to develop the governance system.”

At the heart of this debate, we see potential tensions between EU and national objectives. Our aim is to bring these tensions to wider attention than has been the case thus far and to scrutinise the progress of work. On the basis of our evidence, we hope to make a constructive contribution to the debate that will take place at the December European Council and beyond. We will make policy recommendations to the Commission and Member States, including the UK, accordingly.

The Sub-Committee will approach the issue of governance through the lens of two case studies, which illustrate the tensions: capacity mechanisms and renewable energy targets. These will allow the Committee to explore the topic in the context of national energy security on the one hand and national energy mix on the other.

We seek evidence on any aspect of the topic of EU energy governance, and particularly on the following questions:

### Case Study One (national energy security): Capacity Mechanisms

1. Capacity mechanisms are being introduced by some Member States in order to assure national security of supply.
  - How might the development of some form of governance system mitigate any impact of separate national capacity mechanisms on the EU’s energy policy?
  - How far can co-ordination of such mechanisms go before it becomes politically unacceptable?
  - How has this tension between EU and national objectives been handled thus far?

### Case Study Two (national energy mix): Renewable energy targets

2. The October 2014 European Council agreed that the EU should cut its greenhouse gas emissions by at least 40% by 2030 compared to 1990 and that this should be delivered through a range of measures including renewable energy: “An EU target of at least 27% is set for the share of renewable energy consumed in the EU in 2030. This target will be binding at EU level.” This

contrasts to the 20% renewable target by 2020 which has binding national targets for each Member State.

- How could a governance mechanism assist the EU to deliver its stated policy, including not only the 27% renewables target but the overarching 40% emissions reduction target which relies in part on the renewables target?
- How robust could a governance mechanism be without compromising Member State responsibility for their national energy mix?

**Drawing the case studies together: Looking forward**

3. What are the implications of a strengthened EU approach to energy governance? What are the implications of not making swift progress towards a new—and clear—governance system?
4. If National Energy and Climate Plans were to be the basis for a strengthened governance, who should be responsible for assessment, review and enforcement? How can transparency of that process be assured?
5. What role should regional co-operation play in any new governance system? How can regional co-operation help to overcome the potential tensions between national and EU policy objectives?
6. Should a new governance framework be enshrined in legislation?

You need not address all these questions in your response.

## APPENDIX 4: EU ENERGY GOVERNANCE SEMINAR

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### Introduction

The House of Lords EU Sub-Committee on Energy and Environment hosted a seminar relating to their ongoing inquiry into EU Energy Governance, focusing particularly on two case studies: Capacity Mechanisms in Member States and Renewable Energy Targets. The seminar was attended by Sub-Committee members, representatives of the energy sector, regulators, representatives of the European Commission, the UK Government and invited Member States' representatives and it took place on Thursday 15 October in Westminster. The full list of attendees is shown below. The seminar was held under Chatham House rules. This note summarises core themes and areas of agreement and disagreement, but does not attribute opinions to individual participants.

### Capacity mechanisms

The introduction and role of Capacity Mechanisms (Capacity Markets) were discussed extensively. Some argued capacity markets could play a vital role in balancing new supply dynamics while simultaneously ensuring that sufficient investments were made in the overall level of reliable capacity to provide energy security. The new supply dynamic has been brought about by changing energy supply structures in Member States, whereby an increasing proportion of electricity is supplied by intermittent generators such as wind or solar power and inflexible sources such as nuclear. Cross-border interconnectors would mean that foreign energy supply could support a Member State's energy security, diversifying the electricity supply available during peak demand and system stress. However, there was trepidation from some that Capacity Markets distort price signals and that, once introduced, are hard to discontinue.

There was some disagreement about the preferred level of regulation within Capacity Markets. Some argued that only light-touch agreements on common principles are needed, and that a one size fits all regulatory model would be incompatible with the significant variations in national electricity sectors, national supply mix and infrastructural arrangements. Others believed that it would be more efficient if there were at least a more regional approach, if not a pan-European one, particularly around cross-border security standards and stress peaks in the electricity market.

### Renewable energy targets

There was a substantial debate on the extent to which Renewable Energy Targets are enforceable on a national or EU level. Some participants argued that nationally binding Renewable Energy Targets would have been preferable to the EU-wide binding target of at least 27% of energy coming from renewables by 2030. Concerns were expressed about how to ensure that an EU-wide target would be met, as it could not be enforced under EU law, unlike the existing binding national renewables targets for 2020. Some scepticism was raised over the prospect of free-riding among Member States if the collective target was morally or politically binding rather than legally binding.

The lack of enforcement and clarity about how to handle potential shortfalls on the aggregate EU targets were seen by some as barriers to further investment in renewables. Investors would require firmer commitments to renewable targets to engage with the energy market, particularly since, so far, a fully integrated, competitive market with limited barriers to entry and low production costs for

renewables is still to be developed. Interconnection and regional co-operation between Member States would assist in the integration of renewables in the single EU energy market. There was a widespread view that a regional approach would offer the possibility of accommodating national circumstances while still creating a more integrated market. It was also suggested that capitalising on other EU policy areas, such as the Digital Single Market or the Capital Markets Union, could bring about significant benefits for investors, consumers and the market as a whole.

### Wider governance framework issues

Going beyond the two case studies of the inquiry, participants discussed the broader issue of Energy Governance.

There was wide agreement that increasing the coherence of existing EU energy regulation under the Energy Union could provide consistent and transparent energy governance in the Union. Several areas of current incoherence in the energy markets were mentioned: geographical incoherence caused by decisions taken in one country appearing less rational on the aggregate than the national level; sectoral incoherence, in particular the incoherence between the standards and assumptions used for different energy types, as well as a substantial incoherence between supply and demand; and temporal incoherence between short-term decision making and the long-term impact these decisions have on the future of the energy market.

It was suggested that a reliable Governance framework could be developed, along the lines of the European Semester, allowing Member States to discuss and agree national targets. Furthermore, it was suggested that the aim of more prescriptive Governance would be not to break down the EU-wide 2030 renewables target into binding national targets, but to provide clarity and commitment for investors.

One suggestion was to enhance the use of National Energy Plans for competitive, secure and sustainable energy by elaborating on these in cooperation with neighbouring Member States (as appropriate), with a strong impetus from the Commission. There was, though, notable disagreement among participants as to whether the assessment of the National Energy Plans should be done by the Commission or by an independent agency. While some argued an independent agency would be better able to assess the robustness of each plan, as well as to advise Member States on future action in an objective manner, others found that the Commission would be well situated in the EU regulatory system to fulfil such a function. Furthermore, some participants were hesitant over enhancing the role of a separate EU agency, given public scepticism towards additional regulatory bodies in the EU. The importance of consumers should also not be forgotten, as they are both users of the system and create the political space for change.

### Attendees

Lord Boswell of Aynho, Chairman of the House of Lords European Union Select Committee

Baroness Scott of Needham Market, Chairman of the House of Lords EU Energy and Environment Sub-Committee

Baroness Bakewell of Hardington Mandeville, Member of the Sub-Committee

Lord Bowness, Member of the Sub-Committee

Lord Cunningham of Felling, Member of the Sub-Committee  
Lord Curry of Kirkharle, Member of the Sub-Committee  
Viscount Hanworth, Member of the Sub-Committee  
Lord Krebs, Member of the Sub-Committee  
Lord Rooker, Member of the Sub-Committee  
Lord Selkirk of Douglas, Member of the Sub-Committee  
Viscount Ullswater, Member of the Sub-Committee  
Baroness Wilcox, Member of the Sub-Committee  
Patrick Milner, Clerk to the Sub-Committee  
Celia Stenderup-Petersen, Second Clerk to the Sub-Committee  
Antony Froggatt, Senior Research Fellow, Chatham House and Specialist Adviser to the Sub-Committee  
Peter Handley, Head of the Resource Efficiency Unit at the Secretariat General, European Commission  
Tim Abraham, Head of European Policy, DECC  
Elaine O'Connell, Security of Electricity Supply Team, DECC  
Stephen Kordasch, Counsellor, Deputy Head of the Department of Economic Affairs, Energy and Global Issues, German Embassy, London  
Jonathan Gaventa, Director, E3G  
Mark Copley, Associate Partner, Ofgem  
Josh Roberts, Lawyer, Climate and Energy, ClientEarth  
Gwyn Dolben, Head of European Affairs, Energy UK  
Gordon Edge, Director of Policy, Renewable UK  
Professor Michael Grubb, Professor of International Energy and Climate Change Policy at UCL Institute for Sustainable Resources, editor-in-chief of the journal *Climate Policy*, and Senior Advisor on Sustainable Energy Policy to Ofgem.  
Christian Stenberg, Counsellor, Danish Embassy, London  
Rafał Sordyl, Second Secretary, Energy, Climate, Agriculture, Polish Embassy, London  
Francesca Manchi, Political Officer, European Commission Representation in the UK, London

## APPENDIX 5: GLOSSARY OF TERMS

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ACER	The Agency for the Co-operation of Energy Regulators. ACER co-ordinates the work of national regulatory authorities and monitors and reports on developments in European energy markets.
Capacity adequacy assessments	The annual assessment conducted by OfGem to forecast the UK's energy security supply.
Capacity Markets	A long-term wholesale market that assures electricity supply availability where normal, free-market pricing would not incentivise supply. They are also known as Capacity Mechanisms (see Box 2).
Carbon Capture and Storage	Technology that captures waste Carbon Dioxide emissions produced by fossil fuels in energy production, preventing it from entering the atmosphere.
The Committee on Climate Change	An independent, statutory body established under the Climate Change Act 2008 to advise the UK Government and devolved administrations on emissions targets and report to Parliament on progress made to reduce greenhouse gas emissions and preparing for climate change.
Common network codes	EU-wide technical rules used to manage cross-border electricity flow.
Decarbonisation	The reduction and removal of Carbon Dioxide emissions from the energy system, potentially through the increased exploitation of low-carbon energy sources, and through technologies such as carbon capture and storage (CCS).
Electricity Market Reform	The UK Government's programme to respond to the energy 'trilemma' of decarbonisation, security of supply, and value for money for the consumer. It is made up of the Capacity Mechanism, Contracts for Difference, the Carbon Price Floor and the Emissions Performance Standard.
Energy Governance Framework	The framework by which the EU institutions and Member States interact in order to meet EU-wide and national energy policy objectives.
Energy Union	The European Commission's strategy to work with Member States to provide secure, sustainable, competitive energy.
Interconnection	The physical linking of electricity transmission systems across borders so that cross-border trade in electricity can take place.
National Energy and Climate Plans	Under the EU's 2030 Framework for climate and energy, each Member State must produce a National Energy and Climate Plan for 2021–2030 which feeds into long-term energy policy objectives.



REFIT Programme	The Commission's Regulatory Fitness and Performance programme to streamline existing legislation and reduce regulatory costs.
The Renewable Energy Directive	The EU Directive establishing an overall policy for the production and promotion of renewable energy.
SMEs	Small and medium enterprises. In the UK, these are defined as having no more than 250 employees, an annual turnover of less than £25m, and gross assets of less than £12.5m.
Stress events	Events where energy demand exceeds supply in particular localities (see Box 3).
Transmission System Operators	The Commission term for entities entrusted with transmitting energy from source to user through fixed infrastructure such as power lines for electricity, or gas lines for natural gas.