

EUROPEAN COMMISSION

Rue de la Loi 200,

1049 Brussels

**For the attention of Mr Šefčovič**

Brussels, 13 November 2014

Dear Mr Šefčovič,

I am pleased to follow up on my letter of 4 November and to come back to you with more details on what EURELECTRIC sees as priorities for the Energy Union.

As already mentioned in our previous letter, EURELECTRIC is pleased to see the focus placed in the new European Commission on energy issues and we hope this will be the basis for a stronger and more effective EU energy policy that ensures an affordable energy transition. A competitively priced, secure supply of electricity for our customers is a prerequisite for economic growth and European competitiveness. Europe can only achieve these goals and manage a successful decarbonisation of the economy if the electricity sector becomes investable again. And indeed, the challenge is huge: according to the IEA, no less than €1 trillion of investment is needed by 2020.

It is important to define clearly the substance and objectives of the Energy Union from the very beginning. In order to improve the investment climate, the Commission's action should be based on the following two principles: building an integrated single market and the physical infrastructure it requires; and harnessing the market and competition to meet energy objectives in a way that is coherent at both national and European level. We thus believe that the Energy Union concept should serve as a renewed opportunity for Member States to coordinate their national policies and pool resources towards the achievement of a cost-efficient and market-based energy transition. Defining appropriate governance for the 2030 climate and energy framework will be key.

Looking more closely into the 5 pillars you defined during your hearing in the European Parliament, EURELECTRIC would like to stress the following:

**Pillar 1, "Security, solidarity and trust":** Europe should primarily rely on market mechanisms for security of supply. It is important to remember that security of supply is not the same as self-sufficiency, especially when looked at from a Member State level. Trade in energy products, and especially within the internal market, should be considered positive and desirable. Markets are beyond any doubt the best means to ensure an efficient use of resources and Europe should thus rapidly develop a European framework for capacity markets, starting with cross-border participation.

On the external relations side, EURELECTRIC very much welcomes the role played by the European Commission in helping Russia and the Ukraine to resolve their gas dispute. To reduce the likelihood of future problems, it is important that the EU promotes a diversified fuel mix, uses indigenous resources and builds stronger infrastructure, particularly in those Member States most dependent on a single source of gas supply. Should further problems occur, market forces should be allowed to be effective. Additional measures should remain the exception and, if taken, should always be justified and only adopted for regions where gas markets are insufficiently developed.

EURELECTRIC recognises that there are benefits in the EU conveying the same message externally in energy related policy matters. A more integrated and more interconnected energy market will strengthen Member States' willingness to act together in this area.

**Pillar 2, "Completing the internal energy market":** Political leadership is needed to considerably accelerate the implementation of the internal energy market. Implementing the target model will contribute to competitive prices, a good service level as well as meeting the EU's energy policy objectives at the least cost. Sound governance involving stakeholders is essential for the development of the integrated day ahead, intraday and balancing markets as well as the development, implementation and revision of the network codes. This must go together with the investments needed in the grid and interconnections to ensure security of supply and integration of renewable energy in the market.

We also urge the Commission to carefully consider its position on the retail and downstream markets. There should be a fair, level playing field for all existing and new market participants for the benefit of consumers. Over-regulation that hinders innovation of products and services for consumers should be avoided.

The incomplete opening of some retail markets across Europe – held back by blanket price regulation that reduces customer choice, hinders competition and stifles innovation – does not allow end customers to feel the positive effects of greater wholesale competition. This problem is worsened by high (national) taxes and policy support costs, which further increase the gap between low wholesale prices and increasing retail prices. This distorts consumption and investment decisions and must be changed as a matter of urgency.

**Pillar 3, "Decarbonising the EU energy mix":** Respecting the differentiated views of our members, EURELECTRIC overall welcomes the recent agreement on the 2030 framework, notably the decision to set an ambitious greenhouse gas reduction target as the centrepiece. The EU Emissions Trading Scheme (EU-ETS) is a cost-efficient EU-wide mechanism for driving decarbonisation. It must be urgently strengthened by swiftly adopting the Market Stability Reserve proposal and ensuring its entry into force by 2017, and by issuing legislation that strengthens the linear reduction factor to achieve the 40% reduction target compared to 1990 by 2030. Furthermore, the ETS should be extended to other CO<sub>2</sub> emitting sectors.

EURELECTRIC believes that the EU's greenhouse gas reduction target will drive major investment in renewables and energy efficiency. In the ETS sectors, additional measures to promote these targets should therefore be minimised. Measures should primarily concentrate on the sectors remaining outside the ETS. This may also have implications as to how indicative renewable energy targets are developed in the ETS versus non-ETS sectors respectively.

The significant increase in the share of renewable energy sources (RES) in the electricity mix by 2030 will profoundly transform the power systems. The approach to RES in Europe must be cost-effective, minimise market distortions and respect security of supply: RES must be integrated into the market and grid, and member states should prepare to let the strengthened ETS drive RES deployment. This means concentrating support on RD&D and avoiding further subsidies for mature RES after 2020, while respecting existing contracts. Measures should ensure market transparency and predictability

for investors. All RES support schemes must obviously be in line with the requirements of the EU state aid guidelines.

**Pillar 4, “Moderating EU energy demand”:** Energy efficiency is a no regret option for Europe. The best way to promote it would be to implement market-based pricing in the field of energy, so that prices fully reflect costs; regulated prices of electricity as well as other energy products should be abolished. Competition between energy products used for the same purpose should be intensified.

The ultimate goal should be to reduce total energy use. Electrification of transport, heating and cooling can help to achieve this while reducing CO<sub>2</sub> emissions and limiting dependency on fossil fuel imports from unstable regions. We should ensure that policies facilitate, not hinder such a shift. In this regard the European Commission should revise the primary energy conversion factor in the Energy Efficiency Directive, which together with increasing taxes and levies has the perverse effect of penalising low-carbon electricity use.

**Pillar 5, “Research and innovation”:** Innovation supports all of the above objectives, and there is a need to step up efforts to push technology, business model and process innovation forward to underpin the low-carbon energy transition. Europe should aim at leadership in energy technology development and put the emphasis on the transition from research to industrialisation. Demonstration of new technologies should be prioritised, e.g. through the proposed NER400 initiative.

I hope that these views will prove useful to you and would like to extend EURELECTRIC's full support in your efforts to develop more coherent, market-based and European policies in energy.

I look forward to discussing our views on the Energy Union with you in more detail.

Yours sincerely,



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President of EURELECTRIC  
CEO of E.ON

Cc:

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