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ELECTRICITY FOR EUROPE

2030 CLIMATE AND ENERGY TOOLKIT

EURELECTRIC'S PRIORITIES AND POLICY RECOMMENDATIONS

What is the EURELECTRIC 2030 Climate & Energy Toolkit?

The EURELECTRIC 2030 Climate & Energy Toolkit presents the power sector's priorities and key policy recommendations with regard to the different elements of the EU's 2030 Climate & Energy Framework.

For each of these, we elaborate on:

WHAT? Our objective for this element.

WHY? The rationale behind this objective.

HOW? How to effectively achieve the objective: The relevant policies, instruments and mechanisms that should be reformed, adopted and implemented.

WHEN? Timeframes for achieving the objective and relevant legislative instruments.

Acknowledgements

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The Union of the Electricity Industry – EURELECTRIC – is the sector association representing the common interests of the electricity industry at pan-European level. Our work covers all major issues affecting our sector, from electricity generation and markets to distribution networks and customer issues. Our current members represent the electricity industry in over 30 European countries, including all EU Member States. We have also affiliates and associates on several other continents.

Our structure of expertise ensures that input to our policy positions, statements and in-depth reports comes from several hundred active experts working for power generators, supply companies and distribution network operators.

We have a permanent Secretariat based in Brussels, which is responsible for the overall organisation and coordination of EURELECTRIC's activities.

Strengthening the EU ETS – The main instrument to achieve greenhouse gas emission reductions

Decarbonising the non-ETS – Revealing electricity as the key energy carrier to decarbonise the non-ETS sectors

Ensuring consistency – Adopting a coherent approach in the targets and measures to cost-effectively achieve the EU climate and energy policy objectives

Promoting low carbon investments – Renewable and decentralised technology investments driven by market signals and supported by a strong EU ETS

Improving energy efficiency – Cost-efficient and market based policy instruments to leverage the role of decarbonised electricity

Effective governance – Ensuring achievement of the EU climate and energy policy targets

Strengthening the EU ETS

The main instrument to achieve greenhouse gas emission reductions

WHAT?

The EU ETS system should be reformed to ensure that it becomes an economically efficient, market-based instrument and the key Europe-wide instrument to achieve cost-effective greenhouse gas emission reductions and to promote investments in low carbon technologies.

WHY?

The ETS sectors have delivered the greenhouse gas (GHG) emission reductions required under the Phase III cap. Inflexibility in the ETS design (highlighted by the economic recession) has resulted in a weakened price signal that does not encourage investors to support low carbon technologies. Confidence in the ability of the instrument to deliver in the longer term is weak. Consequently, many Member States have been looking at nationally-based initiatives as alternative / complementary drivers, while other Member States are not necessarily considering the issue as a major priority.
These developments risk:

(i) undermining the EU ETS and the delivery of the long term EU climate & energy policy goals;
(ii) delivering emissions abatement in a less economically efficient manner, damaging the EU economy;
(iii) causing such distortion to the internal electricity market as to make its achievement impossible.

HOW?

- Establish a legal framework to deliver an economy-wide GHG emissions reduction target of at least 40% by 2030 compared to 1990 levels, in line with the 2030 Climate and Energy Framework. Complement the EU ETS with binding national targets for the non-ETS sectors, covering all GHG emissions from all sectors, including non-energy related emissions.
- Support market-based solutions to achieve the EU's climate & energy policy objectives with the EU ETS established as the main policy instrument to provide incentives to reduce greenhouse gas emissions, improve energy efficiency on the supply side and to invest in low carbon technologies.
- The EU ETS annual linear reduction factor should be revised in the range of 2.2% for Phase IV of the ETS (2021-2030), in line with the 2050 decarbonisation objective and the 2030 Climate and Energy Framework. If, subsequent to the COP21 Conference in Paris, the EU decides to go beyond a 40% GHG reduction target for 2030, with the current surplus in the market, there is potential to achieve further ambition under the EU ETS up to 2030. However, the non-ETS sectors should also contribute in a balanced manner to any increase in ambition.

- Free allocation of allowances for certain ETS sectors should be continued in Phase IV. Support the explicit definition of the share of auctioning in line with the October 2014 European Council conclusions, which state that this should not be reduced compared with Phase III. The list should cover only those sectors which are clearly exposed to the carbon leakage risk and should periodically be revised to take account of economic and technological developments (keeping in perspective the final objective of full auctioning of allowances for all sectors).
- Indirect costs for sectors exposed to carbon leakage should be compensated by Member States, through means other than free allocation of allowances, using a harmonised EU-wide approach. To avoid undermining the functioning of electricity and carbon markets, any possible compensation for indirect costs should not be financed through the electricity bill, but should rather come from the revenues from auctioned allowances.
- The Innovation Fund should consider all low-carbon technologies and solutions with common eligibility criteria. While covering the whole value chain, priority should be given to research and early demonstration projects with the biggest potential for cost-efficient GHG reduction and for medium-term market viability.
- The Modernisation Fund, which should be controlled primarily by the beneficiary Member States, as well as the revised mechanism for the free allocation of allowances for promotion of energy system modernisation under Article 10c, should guarantee low carbon investments in eligible Member States that are both cost-efficient and effective. The current system should be improved to ensure increased transparency in the allocation of funds. The current application of Article 10c can be maintained and complemented by the bidding process as proposed. Investments supported by the Modernisation Fund or Article 10c should contribute to the long term decarbonisation objective and do not undermine the internal market or distort competition.
- All unallocated allowances at the end of Phase IV should be placed in the Market Stability Reserve (MSR). Allowances from the MSR should not be placed back on the market within Phase IV for any other reason than explicitly stated in the Directive.
- The EU ETS Directive should include provisions for the establishment of a coherent, transparent and predictable calendar for the monetisation of funds, auctioning and the flow of allowances into and out of the Market Stability Reserve.
- Extending the EU ETS to cover other sectors of the economy should be appropriately studied. For example, the inclusion of fuel consumption (via fuel producers, importers and distributors), or the heating and cooling sector as a whole, in the EU ETS should be assessed as soon as possible.

WHEN?

- Legislative proposal to revise the EU Emissions Trading System Directive

Other relevant EURELECTRIC publications :

EURELECTRIC Position Paper on the European Commission's legislative proposal to revise the EU Emissions Trading Scheme Directive, November 2015

EURELECTRIC's call for a robust climate change agreement, September 2015

Contact:
Koen NOYENS, Manager Generation, Climate & Environment
knoyens@eurelectric.org

Union of the Electricity Industry - EURELECTRIC aisbl
www.eurelectric.org - : @EURELECTRIC

Decarbonising the non-ETS

Revealing electricity as the key energy carrier to decarbonise the non-ETS sectors

WHAT?

To achieve the cost-optimising benefits of a coherent economy-wide approach, it is crucial that a consistent carbon price signal should apply across all sectors of the economy, thus enabling the efficient distribution of assets and efforts. In order to reach the 2050 decarbonisation objective, greenhouse gas (GHG) emissions must be reduced at the end user level in all sectors, including transport and buildings. Electrification is crucial to move emissions to source, where they are dealt with through the EU ETS.

WHY?

The European electricity industry has delivered the bulk of GHG emission reductions to date on the pathway towards a low-carbon society. These reductions have come primarily from the supply side. For the future, the electrification of the demand side sectors of the economy (which do not fall under the EU ETS) has been acknowledged as one of the crucial elements on the path to decarbonisation. The 2030 Climate and Energy Framework, and in particular the revision of the Effort Sharing Decision and the EU's strategy for decarbonisation of transport and heating and cooling, provide an excellent opportunity to further enhance the role of decarbonised electricity in the non-ETS sectors in achieving their decarbonisation. The transport and heating/cooling sectors are key. At the same time electrification will also indirectly contribute to reaching the non-binding targets for renewables and energy efficiency in 2030, as well as local pollution targets. Moreover, a fuel switch to electricity in the non-ETS sectors, when achieved in parallel with the decarbonisation of the power sector, will deliver many positive effects in addition to GHG emission reductions in these sectors, these include: security of supply (renewables penetration), reduction in acidification (SO2 and NOx reduction) and improved human health (VOC, particulate and noise reduction). Electrification is thus a technically and economically efficient way to open the door for many positive changes in sectors which currently have no prospect of becoming fully sustainable.

HOW?

- Unlocking the benefits of electrification will require policy actions:
  - less burdening of electricity bills with general policy costs coupled with a consistent carbon price signal across all energy carriers;
  - more attractive financing tools to stimulate investment in new technologies by consumers;
  - review of the application of conversion factors in energy efficiency legislation (PEF).
- Switching from fossil fuels to electricity in the non-ETS sectors, such as heating and transport, can further unlock the potential for more efficient technologies such as electric vehicles and heat pumps.

- Enabling fuel switching through the promotion of innovation and smart grids can significantly increase the speed and benefits brought about by electrification. Policy obstacles in these fields should therefore be removed and electric solutions should be seen as key facilitating technologies for reaching the EU's climate and energy targets.
- The inclusion of fuel consumption as well as the heating and cooling sector as a whole in the ETS should be assessed as part of the revision of the ETS.
- Infrastructure for emissions free energy carriers in all sectors must be promoted (such as, for example, the charging infrastructure for electric vehicles).
- The one-off flexibility mechanism agreed in the October 2014 Council conclusions risks causing distortion in the split of efforts between the ETS and non-ETS sectors. Any new flexibility mechanism must contribute to the strengthening of the ETS and at the same time also enhance incentives to decarbonise the non-ETS sectors, whilst ensuring the integrity, predictability and transparency of the carbon market.

WHEN?

- Legislative proposal on revising the Effort Sharing Decision
- Review of legislation setting emission performance standards for cars & vans
- European Strategy for Heating & Cooling with appropriate policy measures
- Study on the primary energy factor (PEF) launched by the Commission
- Review of the Energy Efficiency Directive
- Review of the Directive on Energy Performance of Buildings
- Revision of the Energy Labelling Directive

Other relevant EURELECTRIC publications :

EURELECTRIC consultation response on the preparation of a legislative proposal on the effort of Member States to reduce their greenhouse gas emissions to meet the EU's greenhouse gas emission reduction commitment in a 2030 perspective, June 2015

EURELECTRIC views on the Revision of Primary Energy Factors (PEF) in EU Legislation, August 2015

The Benefits of Electrification – Electricity's contribution to sustainable energy use, September 2015

EURELECTRIC Comments on the EU Heating and Cooling Strategy Consultation Forum Issue Papers, September 2015

EURELECTRIC views on the EPBD Review: the role of buildings in achieving the EU climate and energy targets, October 2015

Contact:
Koen NOYENS, Manager Generation, Climate & Environment
knoyens@eurelectric.org

Union of the Electricity Industry - EURELECTRIC aisbl
www.eurelectric.org - : @EURELECTRIC

Ensuring consistency

Adopting a coherent approach in the targets and measures to cost-effectively achieve the EU climate and energy policy objectives

WHAT?

The coherence of the three headline policies and their derived targets must be ensured, taking into account both the EU ETS and the non-ETS sectors. In order to ensure efficient regulation and effective implementation, it will be crucial to avoid adopting policy instruments that have a conflicting or inconsistent effect, and which hinder the achievement of the headline targets or involve unnecessary additional costs.

WHY?

The effectiveness of the EU ETS as a tool to achieve cost effective GHG reductions is hampered by problems related to the huge oversupply of allowances. These are caused by multiple factors, including exogenous factors, like primarily economic cycles, as well as by policy interventions, which include the mandatory deployment of carbon reduction technologies (renewable energy and energy efficiency).

These have led to sustained, low ETS allowance prices and a significant oversupply of allowances when compared with the projections made at the time when the allowances caps for Phases II and III were set. These have also led to the addition of avoidable costs to consumers' energy bills. The same mistakes must be avoided in the 2030 framework.

HOW?

- Design European policies and implementing instruments in a way that does not undermine the overall economic efficiency and environmental effectiveness of the EU-ETS. Coherent and integrated policy instruments based on a well-functioning EU ETS will be key to achieve the EU's GHG reduction targets on a level playing field and in the most cost-effective way.
- Additional measures for renewable energy and energy efficiency should be concentrated on the non-ETS sectors, such as transport and buildings, if they remain outside the ETS.
- Deliver the energy efficiency and renewable targets through market-based, cost-efficient policies.
- Establish policy coordination measures to ensure that any impacts on the EU ETS are predictable:
    - The Market Stability Reserve (MSR) will play a role in addressing the overlap of polices. The MSR can contribute to absorbing the effect of overlapping polices but will not address the problem at its origin and will not be sufficient for all cases. It therefore cannot be considered as the only solution to minimising the impact of overlapping policies.
    - Greater transparency on the quantitative GHG reductions and the costs of other policies is helpful to ensure well-informed decision.
    - Ensure adequate monitoring of the impacts from other polices to help maximise predictability.

WHEN?

- Legislative proposals:
  - review of the RES Directive;
  - review of the Energy Efficiency Directive;
  - revision of the EU ETS Directive; and
  - revision of the Effort-Sharing Decision
- 5-yearly review of the Market Stability Reserve
- Periodical review of the EU's GHG emission reduction commitment to the UNFCCC

Other relevant EURELECTRIC publications :

Achieving the Energy Union – a collective effort by all EU Member States, October 2015

EURELECTRIC Position Paper on the European Commission's legislative proposal to revise the EU Emissions Trading Scheme Directive, November 2015

EURELECTRIC Report on Electricity Market Design: Fit for the Low-Carbon Transition, April 2016

Contact:
Koen NOYENS, Manager Generation, Climate & Environment
knoyens@eurelectric.org

Union of the Electricity Industry - EURELECTRIC aisbl
www.eurelectric.org - : @EURELECTRIC

Promoting low carbon investments

Renewable and decentralised technology investments driven by market signals and supported by a strong EU ETS

WHAT?

A market-based and cost-effective deployment of RES should take place. The EU ETS should become the main driver for mature low carbon technologies after 2020. It should be complemented by dedicated support to innovative and commercially immature technologies primarily through research, development and demonstration support.

WHY?

The significant investment in RES-E in Europe over the last years has seen key technologies (e.g. wind and PV) reach maturity, while their costs have decreased significantly. However, the massive expansion of RES has also led to distortions regarding investments in generation capacity and market functioning, and it has resulted in higher electricity bills for households and businesses. The impact of such RES support on bills and on market functioning could have been mitigated by better designed support schemes.

The first steps are now being taken to integrate RES into the market, but much remains to be done. The EU has set a target of becoming world leader in renewable energy. In order to meet this target, the EU needs to ensure future RES deployment is commercially driven and based on market fundamentals that support sustainable investments. Strong commitment to Research, Development and Innovation on RES and on technologies that enable deployment of RES is necessary.

HOW?

- Ensure that the market design, including a strong EU ETS, provides a basis for sustainable, commercial investment in RES technologies, ensuring in particular a robust business model for RES investments.
- Finalise the delivery of the Internal Electricity Market. Implement the Third Energy Package and the integration of wholesale markets across all timeframes, which is important for variable RES.
- As we approach 2020, further integrate RES into the electricity market: Apply the same rights and obligations to RES as other market participants (balancing responsibility, grid connection etc.). RES support schemes should become more cost-efficient, maximise market orientation and minimise market distortion. EU state aid guidelines should be enforced effectively. A level playing field is needed for generation technologies, storage and demand response.

- Strengthen the role of the EU ETS in the electricity market so that it becomes the key support instrument for investment in mature low carbon technologies. With a reinforced carbon price signal and an accelerated cap reduction, additional measures to promote RES can be reduced within the ETS sectors: Subsidies should be phased out progressively for the period after 2020. Continue to support immature technologies after 2020 through research, development and demonstration support as well as support for early deployment.
- Should Member States choose to provide support for mature RES after 2020, they should be required to assess the impacts of support on the power market, security of supply, competitiveness and the EU ETS, and to minimise the resulting distortions.
- Frame RES policy within a more European approach in order to ensure cost-efficient RES development. Foster Regional cooperation on RES in the context of the Energy Union. Europe has moved beyond the early deployment stage for distributed generation. Adapt the regulatory framework to ensure the cost-effective development of distributed generation and grids, as well as a fair allocation of related costs and benefits. Network charging for small and medium size customers should evolve towards more capacity-based network tariffs.
- Provide a sound regulatory framework that stimulates innovation and provides a predictable business environment for companies to develop innovative, customer-friendly services for prosumers. Market-based business is allowed to grow when prices are not regulated and when there are no purchasing obligations or indirect subsidies.
- In parallel to the market integration of renewables, the demand side flexibility needs to be encouraged through efficient price signals to promote demand side response, including the introduction of time of use tariffs linked to the introduction of smart meters.
- Develop the necessary infrastructure in tandem with further renewables growth, taking into account the costs and the benefits of such a joint development: the welfare gains from integrated networks increase in a system with a growing share of regionally dispersed, diverse intermittent renewable energy generation.

WHEN?

- Legislative proposal to revise the RES Directive
- Legislative proposal on the new European energy market design
- Review of state aid guidelines for the period after 2020

Other relevant EURELECTRIC publications :

EURELECTRIC response to European Commission's public consultation on a new energy market design, October 2015

EURELECTRIC response to European Commission public consultation on the preparation of a new Renewable Energy Directive for the period after 2020, February 2016

EURELECTRIC Report on Electricity Market Design: Fit for the Low-Carbon Transition, April 2016

Contact:
Hélène LAVRAY, Advisor, Environment & Sustainable Development - hlavray@eurelectric.org

Union of the Electricity Industry - EURELECTRIC aisbl
www.eurelectric.org - : @EURELECTRIC

Improving energy efficiency

Cost-efficient and market based policy instruments to leverage the role of decarbonised electricity

WHAT?

EU energy efficiency policy must play a key role in greenhouse gas (GHG) emission reductions, in addition to contributing to energy security and affordability. However, it must be delivered in a cost-efficient manner through tools which should be market based where possible and technology neutral. At the same time energy efficiency needs to facilitate a key role for carbon-neutral electricity in decarbonising the remainder of the energy system and economy. The real value of decarbonised electricity in the creation of a sustainable economy is already revealing itself today.

It must be ensured that energy and energy service companies can play an important role in energy efficiency market development. Measures are also needed to promote consumer engagement through regulation (appliance standards, building regulations, product specifications, requirements on landlords) and fiscal incentives (financing tools, tax rebates). The role of digital technologies in energy efficiency (energy management and controls, smart phone apps), their potential and impacts should also be considered.

WHY?

Energy efficiency products and services offered by utilities can make a key contribution to the energy transition. As utilities expand new business models and increase their knowledge and offers concerning energy efficiency, the post 2020 framework must ensure that this developing business field can live up to its potential.

Ambitious energy efficiency policy has to overcome the market failures and (non-)financial barriers which are often inherent in some energy efficiency markets. Unfortunately these are often addressed by the implementation of policy tools which rely less on markets and more on command and control mechanisms, such as obligation schemes. However, voluntary actions based on market mechanisms and positive incentives are more sustainable.

Moreover, obligation mechanisms are often financed disproportionately through the electricity bill (e.g. via public service obligations or electricity utilities passing through the cost of insulating customers' homes to reduce energy use that is generally not electricity), distorting real price signals. The increase in the price of electricity today is primarily a result of policy related charges. It no longer reflects the real cost of providing electricity and penalises electricity as an energy carrier compared to fossil fuels. In addition, the rules used to measure the performances of energy carriers in terms of energy efficiency and of contribution to its objectives are obsolete or inappropriate.

HOW?

- Market based: Determine an energy efficiency target at EU level in a way that promotes innovation and delivers energy efficiency through markets reflecting real costs and the potential for the customers to have an active, positive influence. Where economic energy efficiency investments are not taking place, market failures and barriers to investment must be clearly identified and addressed. This can mean financing support for the roll out of new products and technologies, removing non-financial obstacles and information sharing on best practises and standards throughout EU Member States. This should be

considered in combination with a consumer education programme to provide informative messaging on the importance and value of home energy efficiency and promote demand.

- Flexible and technology neutral: On the energy supply side, a reformed EU ETS remains the most cost-effective tool for energy efficiency investments on a market basis. On the customer/demand side, EU tools need to ensure technology neutrality and recognise that the needs and opportunities for improved efficiency in different EU Member States vary considerably. When considering policy tools it is therefore crucial to allow Member States enough flexibility to drive national priorities which suit their own market, housing conditions and consumer preferences.
- Energy efficiency can also be increased through the increased electrification of heating/cooling and transport via efficient technologies such as heat pumps and electric vehicles. Replacing fossil based systems with electric technologies which utilise electricity from renewables and other low-carbon sources is a promising pathway to decarbonize these sectors.
- Policy revisions must recognise the important role for electricity as an energy carrier and ensure a level playing field between energy carriers. This means, concretely, a fair apportionment of general energy policy costs to the electricity bill, reflecting carbon costs across all energy carriers, recognition of electrification as a solution in innovation policy and the review of the application of primary energy factors (PEF).
- The calculation of the primary energy factor (PEF) should be revisited to ensure that electricity is not discriminated against. Adjusting the existing methodology for calculating the primary energy factor in order to ensure that it is calculated on a forward looking basis would improve the signals given to investors and decision-makers enabling them to select the best technologies in terms of economic and environmental sustainability. It would ideally be defined as a single European value in order to not undermine the internal market. A forward looking PEF should be calculated according to the projected primary energy inputs to electricity over the next 10 – 15 years. This should incorporate a value of 1 (i.e. 100% conversion) for RES and other carbon neutral components in the mix. Such an approach would also imply lowering the 2.5 factor in line with the expected evolution of the EU generation mix over time.

WHEN?

- Review of the Energy Efficiency Directive
- Review of the Directive on the Energy Performance of Buildings Directive
- Study on the primary energy factor (PEF) launched by the European Commission
- European Strategy for Heating & Cooling with appropriate policy measures

Other relevant EURELECTRIC publications :

EURELECTRIC views on the Revision of Primary Energy Factors (PEF) in EU Legislation, August 2015

The Benefits of Electrification – Electricity's contribution to sustainable energy use, September 2015

EURELECTRIC Comments on the EU Heating and Cooling Strategy Consultation Forum Issue Papers, September 2015

Triggering energy efficiency investments, September 2015

EURELECTRIC views on the EPBD Review: the role of buildings in achieving the EU climate and energy targets, October 2015

Electro-Mobility: A clear solution for sustainable transport and energy – A EURELECTRIC Policy brief, October 2015

EURELECTRIC response to Commission consultation on the review of the Energy Efficiency Directive, February 2016

Contact:
Henning HÄDER, Advisor, Energy Efficiency & Electrification – hhader@eurelectric.org

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www.eurelectric.org - : @EURELECTRIC

Effective governance

Ensuring achievement of the EU climate and energy policy targets

WHAT?

The Governance system should provide for a coherent approach both to the 2030 Climate and Energy framework and to the EU's broader Energy Union policy objectives within a transparent accountability framework at the EU and Member State levels. It should ensure that the EU makes progress towards the achievement of the agreed 2030 climate and energy targets

- without compromising security of supply or competitiveness,
- while providing that the costs for European households and businesses remain justified; and
- in a manner which engages all energy users in the transformation of Europe's energy system.

WHY?

Potentially divergent national approaches and overlapping policies, often with multiple and competing objectives, are not the most cost-efficient or effective means to achieve the three goals of energy policy: security of supply, competitiveness, and sustainability. The Energy Union project should serve as a renewed opportunity for the EU to work together towards the climate and energy policy goals. Member States should coordinate their national policies and pool resources towards the achievement of a cost efficient energy transition and security of supply. EU policy objectives, targets and instruments should be handled in a manner consistent with the development of a more integrated European energy market.

HOW?

- The binding GHG emissions reduction target of at least 40% should remain the centrepiece of the 2030 climate and energy framework. The following two elements are crucial in the cost-effective decarbonisation for electricity and will therefore play a key role: a well-functioning market and a robust EU ETS.
- Develop cooperation between National Regulators within ACER to build a European vision for consistent energy regulation leading to the evolution of sustainable electricity and gas markets. In order to do so effectively, a vision for the role of ACER must be developed with a European mind-set, safeguarding the interests of European customers.
- Increase the regional cooperation of TSOs, aiming for TSOs to act in a regional system perspective. Develop the role of ENTSO-E, learning from past experience and with appropriate oversight by ACER.
- Ensure regional cooperation, coordination and solidarity, starting from the early stages of national policy drafting and the development of national plans. For instance, regional cooperation would allow Member States to develop renewables more cost-efficiently by pooling resources.

- Ensure the governance process, including the national climate and energy plans for 2030, provides a transparent and credible framework for investors and helps reduce regulatory uncertainty. Allow Member States sufficient flexibility in the implementation of energy efficiency policy in order to adapt national priorities and actions according to needs and opportunities that vary considerably between Member States.
- Avoid uncoordinated national developments on renewables and security of supply. A more European approach to renewables policy and a regional approach to generation adequacy are needed.
- Introduce key performance indicators in the following 5 areas to ensure collective progress towards Europe's agreed 2030 targets and other energy policy objectives:
  1) prices and the different components of the energy bill;
  2) integrating renewables in the electricity systems and driving cost efficient deployment of RES;
  3) balanced and cost-effective decarbonisation;
  4) security of energy supply including generation adequacy and flexibility of the electricity system;
  5) investment climate and a well-functioning power market.

WHEN?

- Process towards achieving the Energy Union

Other relevant EURELECTRIC publications :

EURELECTRIC Position Paper: Energy Union and 2030 Energy & Climate Governance, April 2015

Achieving the Energy Union – a collective effort by all EU Member States, October 2015

EURELECTRIC comments on Commission proposal on the Energy Union key indicators, April 2016

EURELECTRIC response to consultation on streamlining of planning and reporting obligations as part of the Energy Union governance, April 2016

Contact:
Koen NOYENS, Manager Generation, Climate & Environment
knoyens@eurelectric.org

Union of the Electricity Industry - EURELECTRIC aisbl
www.eurelectric.org - : @EURELECTRIC

eurelectric
ELECTRICITY FOR EUROPE

Union of the Electricity Industry - EURELECTRIC

Boulevard de l'Impératrice, 66 boîte 2
1000 Brussels
Belgium

T.: + 32 (0)2 515 10 00 - F.: + 32 (0)2 515 10 10
website: www.eurelectric.org
twitter.com/EURELECTRIC

EU Transparency Register number: 4271427696-87

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