

Islands: Part of the solution to Europe's 2030 Climate and Energy Challenges

Speech to be delivered on the 20th February 2017 – Eurelectric Workshop

I would like first to thank Eurelectric for providing me with the opportunity to participate in this workshop and represent the views of the Maltese Presidency of the Council of the European Union, on a subject, which also happens to be of particular interest to the country that I know best – Malta – a small island state which in energy terms may be defined as small and partially isolated energy system.

Malta's Presidency comes at a crucial time when the European Commission has issued the legislative tools to materialize Europe's climate and energy agenda for 2030 within the framework of an energy Union, that is the "Clean Energy for All Europeans package".

As Presidency we're committed to opening all 8 legislative files – including Electricity Market Design and introduce momentum to discussions at Working Group level. We have done so by first scrutinizing impact assessments accompanying proposed legislation and will hear Member States' out as early as next week when on the 27th of February we'll be holding a formal Council.

The "Clean Energy for All Europeans" package is meant to address the developments in the energy sector and provide a suitable legislative platform to ensure sustainable growth through affordable, cleaner and more reliable energy sources. The cadre of legislation presented seeks the collective achievement of these objectives through the completion of the internal energy market, upgrading of the energy infrastructure, increasing security of supply through a wider choice of sources, increased energy efficiency, decarbonisation of the energy mix, and enhancing research and innovation.

This strategy relies on an energy transition to support sustainability in its wider sense. It reflects the need to move to cleaner sources of energy to cut down on carbon emissions but also ensure a stable supply which is an underlying prerequisite for sustainable growth and quality of life. It is widely acknowledged that ensuring the balance between cleaner energy, security of supply and affordable energy prices is more onerous and costly for isolated and peripheral regions such as islands. Having said that, it does not mean that islands cannot achieve this.

However, to make this happen there has to be a clear understanding by policy makers and regulators of the islands specific situations and the need for the regulatory framework to recognize their specific situation and be tailored in such a way to cater for their needs.

It is in this context, that I will now remove my Presidency hat and use my country's experience as a positive example. Malta being a small and until recently, completely isolated energy system, realized that it had to address its heavy dependence on oil and the structural inefficiencies which were keeping energy prices well above average, and subject to the whims of the oil market.

The need for reform in the energy sector for Malta has long been felt by a variety of stakeholders and representative bodies of civil society in Malta who had expressed concern on the overall performance of the sector and its impact on the social, economic and environmental fabric of the country. We were charging the highest rates of electricity to both domestic and commercial customers in spite of a lower than average GDP per Capita. This was creating significant difficulties in competitiveness particularly in the manufacturing Industry where the cost of energy generation is a major component of the total cost of operations. Yet, in spite of having one of the highest rates of electricity

in Europe, Enemalta, at that time a Government corporation, which is the exclusive distributor of electricity in Malta, was still running at an operating loss. This was largely caused by dependence on an inefficient configuration of energy generation capacity based on heavy fuel oil and acting as a major source of pollution in the country.

The Maltese Government was committed to eliminating the use of heavy fuel oil once and for all in an effort to promote a cleaner and better environment.

This meant that, despite the Island's syndrome of isolation and miniscule market, which is permanent, the Government had to find a way of attracting private investment to decarbonize its energy system whilst ensuring security of supply and affordability.

The demand for electricity in Malta is significantly lower than that generated in other European Countries limiting the overall generation capacity for viable operation. Malta's annual consumption in 2015 was in fact approximately 2.1TWh. Existing power generation infrastructure was largely approaching its end of life, creating a situation where new operators would not have been interested in acquiring them. The development of new infrastructure was limited by land availability and environmental concerns. This was intrinsically linked with the choice of fuel, its delivery and storage and which also conditioned investment in new infrastructure which needs long term visibility.

Whilst a 200 MW Interconnector with Sicily is now in place, its feasibility had to rely on the local electricity demand since Malta cannot act as a transit country for electricity, and is unlikely to be able to export electricity generated onshore given its location at the periphery of the European grid and a load profile which is similar to that of Southern Italy.

The relatively small electricity market in Malta, means that we as policy makers, are continuously faced with steep trade-offs between the competing needs to:

-) diversify energy sources for the electricity market while meeting commitments to reduce carbon and other emissions;
-) achieving cost efficiencies by reaping economies of scale, particularly in areas where relatively large investments would be required, including in the development of new fuel transport and storage infrastructures;
-) achieving security of supply, which would imply higher average costs and potential redundancies to duplicate infrastructures;
-) meeting renewable energy targets, which for Malta is potentially feasible mainly through the production from photovoltaics, and which would in turn require the existence of shadow capacity to meet intermittency; AND
-) achieving production efficiencies and consumer welfare improvements through an increase in the number of players in the market.

Meeting the requirements under any one of these areas often implies the need for compromise in respect of the others, in order to maximise consumer welfare while meeting emissions, environmental and operational constraints. In practice, this imposes limits on the potential number of players in the market in both generation and particularly in distribution activities, which for a number of years will be conditioned by the need to optimise cost performance within a highly dynamic environment.

Despite these limitations, Malta embarked on a turnaround of the energy sector by involving the private sector to act as a strategic partner, whilst ensuring that public interests, such as security of supply, are guaranteed.

The solution was multifaceted and included firstly, turning around the operating performance of Enemalta, an overhaul of the generation sector to increase its generation efficiency and aligning it with international standards; an electricity interconnection - and in the future, a gas interconnection - with mainland Europe; a switch from fuel oil to natural gas (the quickest way being via LNG), and extensive support for the deployment of photovoltaic panels and energy efficiency schemes. The fuel switch is in itself a demonstration that even small countries or regions with limited electricity demand can take advantage of low carbon technologies such as natural gas. These investments were and are still being carried out in partnership with private investors who captured opportunities which arose as Malta transforms its energy profile.

This comprehensive energy strategy provided for a cleaner and more sustainable energy with a lower carbon footprint as well as leading to significant cost savings. These have been translated into a tariff reduction by an average of 25% for both domestic and commercial sectors and a reduction of around 50% in the greenhouse gas released by the power generation industry. This in turn has provided a further incentive to businesses to invest in alternative energy sources.

This has also led to a turnaround in the financial situation of Enemalta, providing peace of mind not just for investors in the energy sector but also those in all other economic sectors which depend on Enemalta for a reliable, cost effective supply of electricity.

The government's primary role in this strategy was to ensure that a sound regulatory and financial framework is in place and to create the right climate for private investment. These are essential elements sought by prospective investors who seek to minimize the risk, which in turn facilitates access to

finance. Presenting a clear, long term, sustainable strategy is also important as this gives visibility for the investor, given that investments in energy infrastructure often provide a return on investment spanned on several years.

Our experience serves to highlight that in their own way and despite their diversity from mainland energy systems, islands can still contribute to Europe's solution in addressing the 2030 Climate and Energy Challenges. The challenges faced in opening up the energy market do not seem to be limited to Malta but appear to extend also to other Island States. In fact, a review of statistics presented by Euroelectric in 2013 shows a distinct pattern wherein Member States in mainland Europe are characterised by a wider competitor base in comparison to Island States.

It is the intention of the Maltese Presidency to steer the debate in a manner which increases awareness on Islands' energy strengths and weaknesses. Discussions in Council are at a very early stage, however, in our opinion, it is safe to say that moving away from a one size fits all approach is elementary for islands to thrive. Hence we require an Electricity Market Design legislation with a good dose of subsidiarity and proportionality. As described earlier, using Malta as an example, experience shows that Islands' energy specificities are best tackled through tailor made solutions. Such an equilibrium of measures will ensure that Islands become part of the solution for an effective energy union, and we look forward to further analyse this subject in a special session on Islands that the Maltese Presidency intends to hold in its Informal Energy Council in Valletta on the 18th of May.

With these remarks, I thank you for your attention and I wish you a very successful meeting and fruitful deliberations.