
ROUNDTABLE OF EUROPEAN ENERGY INDUSTRIALISTS

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// JOINT MESSAGES

STATE OF THE ENERGY UNION

JOINT MESSAGES FROM THE ROUNDTABLE OF EUROPEAN ENERGY INDUSTRIALISTS

ENERGY UNION – KEEPING EUROPE TOGETHER

Cooperation across borders, good neighbourship and liberty are key for the future of the people and the countries in Europe. Not only have they enabled 70 years of peace and stability in Europe, but they also made the European Union what it is today – a strong economic and political player on the world stage.

However, not all citizens feel that European integration has made their lives better. Fears of uncontrolled globalisation have given Eurosceptic parties and populist movements all over Europe a fertile breeding ground. This is a development that needs active reaction from all Europeans – citizens, policy-makers and industry.

As companies and as European citizens we hereby offer our support for this important task.

Energy has always been the spearhead of European cooperation. It created interlinkages and increased security of supply. It paved the way for the free movement of goods and people. It even secured close ties with countries that are not part of the European Union.

As members of the Roundtable of European Energy Industrialists, we want to continue the deepening of energy relations in Europe. The European Union must provide a framework, which allows for the best possible coordination of different technological approaches, national efforts, decentralisation and regional cooperation. In our view, the key to success lies in the balance of sound and strong common rules on the one hand and respect for the subsidiarity principle on the other hand. As with the European unification process, the goal should not be the centralisation of power but rather “unity in diversity”.

Whatever the developments on the political arenas across the EU and Europe, we want to contribute to the completion of this Internal European Energy Market and offer our support. We would be delighted to work closely with the European Commission and discuss how we can best pool our resources in this important task.

DECARBONISATION AND INTEGRATION OF RENEWABLES

Recommendation: Improve investment incentives for a decarbonised energy system

Climate change poses one of the most serious threats that mankind will face in the years to come. The EU therefore rightly promotes an ambitious climate change policy. A predictable investment environment, associated with proper incentives and a cost-efficient expansion of the grid, are needed to implement this decarbonisation policy successfully.

- Act beyond the current draft legislation revising the Directive establishing the EU Emission Trading System (ETS). Without further strengthening of the ETS, investors will not recover confidence in the ETS price as an investment signal.
- Continue supporting grid investment, in order to ensure the timely construction at an affordable cost of a proper grid needed for the integration of renewables. In particular, costs resulting from the early implementation of innovations by operators should be accepted under national regulation. This will strengthen stability and affordability of investments.

Recommendation: Create a level-playing field for all technologies and market actors

The price of renewables is steadily decreasing, while existing and new market actors (aggregators, local energy cooperatives, etc.) are aiming to develop new business models based on Demand Side Response and aggregating distributed assets. In the future these changes will translate into a larger number of players entering and competing in the energy market.

- Allow price formation to reflect the system situation, i.e. allow price spikes in times of scarcity-related emergencies, to send the right signals for investing in flexible units. A functional market should deliver the price signals which ensure that the required investments in adequate capacities take place when and where needed, and with the appropriate level of flexibility.
- Ensure enhanced cooperation between TSOs and DSOs at the European level, in order to facilitate the development and implementation of improved regulation concerning flexibility.
- Open balancing markets and other ancillary services markets to all technologies, in order to support system operation and to get the best available services at the lowest cost.
- Give all actors in the market full balancing responsibility. Currently, the regulatory framework does not treat all technologies equally: some benefit from must-run obligations, others have priority access and dispatch, balancing responsibility or not, etc. Harmonised rules and the fair and equal entry of new players in the market would translate into a larger pool of ancillary services providers.

Recommendation: Enable consumers to reap the benefits of their flexibility

- Allow consumers to choose freely among different electricity supply contracts, from those based on flexible prices to others providing them protection from price spikes.
- Enable consumers to offer to the market the flexibility of their own electricity generation or storage device on a level-playing field and be rewarded for their services. When appropriate, Demand Side Response and other types of flexibility in the distribution system could also contribute to solving the global imbalances of the system.

INFRASTRUCTURE AND PUBLIC ACCEPTANCE

Recommendation: Provide more political support for the development of key interconnector infrastructures in Europe

An interconnected European power system will bring huge benefits to the European citizens in terms of secure system operation, price convergence and affordability, as well as reduction of greenhouse gas emissions. The Roundtable of European Energy Industrialists welcomes the strong political signal given by the European Council in support of interconnections.

In recent years, investments in new interconnection projects have increased across Europe, in particular in the North Sea region where important interconnection projects are currently in the development or building phase (NEMO, North Sea Link, Viking, IFA2, etc.) as well as in the Baltic Sea (Kriegers Flak Combined Grid Solution and the Hansa PowerBridge projects). However, more interconnections are still needed to support a well-functioning, secure, competitive and climate friendly power market. In this regard, the Roundtable recommends to:

- Communicate the need for key infrastructures to reap the full benefits of the energy transition.
- Further develop sound interconnection targets that transpose the 10% and 15% target into differentiated targets adapted to the needs of the different European regions and countries. The creation of the Interconnection Expert Group is a very positive development that will be instrumental in delivering results in this area.
- Demonstrate the need for grid development in order to be accepted. The socio-economic welfare analysis in the context of network studies should continue as an effective way to identify required grid investments.
- Initiate a dialogue with high-voltage direct current (HVDC) cable suppliers since the cable supply market is causing significant delays for interconnector investments. It is crucial to assess market needs and to ensure that cable production capacities are adapted accordingly.
- Make sure that the support for new interconnection projects does not stop at the border of the EU, but that it encompasses adjacent non-EU countries when needed. Measures that allow for the building of strategic interconnection projects with third countries, when beneficial for EU citizens, should be included. This should also ensure that optimal and efficient cross-border trading arrangements, such as market coupling, are open to relevant third countries.

Recommendation: Adapt market rules to reap full benefits from interconnectors

Building new interconnectors has to go together with more efficient markets. Elements of market efficiency are key to interconnectors' investments.

- The proposed review of the Regulation on the internal market for electricity published as part of the 'Clean Energy for All Europeans' ("Winter Package") runs the risk of making investments in new interconnections less attractive to TSOs and other market players, as it adds regulatory risk to the overall risk of grid investments. New regulation that interferes with how investors are to use their

income can significantly alter incentives for new investments on the energy market, and create uncertainty for current investments. Customers are paying for grid investments via their tariffs, and the ability to use congestion revenue to limit the burden put on customers is a crucial part of the TSOs' "deal" with them. This is also important to ensure public acceptance and in the end to realise the energy transition. Finally, such provisions could also endanger other innovative approaches taken by regulators and under which some commercial interconnector investments and business cases are built on (e.g. UK cap and floor regime).

- Interconnector capacity can be used in various market timeframes – day-ahead, intraday and for balancing. The capacity has to be allocated across these market timeframes in an optimal way in order to maximise socio-economic benefits.

Recommendation: Support Member States in improving public acceptance

Local opposition against - and the lack of political support for - grid expansion projects are hurdles for efficiently integrating a growing amount of renewables and for creating a truly integrated European electricity market. It slows down or prevents the connection of renewables into the electricity system and prevents the building of the new electricity connections needed to solve congestions.

The European Commission should take major actions to support acceptance while avoiding any actions, which could undermine it. The criterion of local acceptance currently seems to play only a minor role in the Commission's reasoning around the "Winter Package". We are convinced that it should be a central criterion. The European Commission is therefore invited to:

- Pragmatically communicate as often as possible what the energy transition means concretely in terms of additional generation as well as additional power lines. This includes the future installation of new pylons and substations in some places, making clear that there are concrete consequences coming from the energy transition, which is collectively decided (during Commissioners' visits at national level, in speeches, documents, brochures at Euro Info Centres).
- Encourage and support the development of convincing simulation and gaming tools to demonstrate the general "needs for grids" in the European energy transition, to be freely accessible in the Internet. Citizens themselves should have the possibility to try out in online simulations how a good grid makes the European energy transition much more efficient.
- Motivate and support Member States' governments in committing themselves to practically work on raising acceptance (guidance document, dialogue within the governance process of the Energy Union).
- Support new technologies that minimise the impacts of power lines on citizens and nature through the Horizon 2020 programme. Research projects should also help further enhance the involvement of local citizens in the planning and project implementation process.
- Promote European best practice approaches to enhance acceptance and disseminate among European citizens.

- Leave the final decision making power over grid planning at the national level for reasons of local acceptance. In case decisions are moved to the supra-national level in the short-term, we anticipate that local acceptance would be much lower.
- Refrain from reassessing PCIs in the implementation phase every two years in order not to cast doubts about whether the projects are really needed. Project implementation needs a stable framework.
- Take into account the costs for acceptance and all benefits of such projects in the cost-benefit analyses for new projects.

REGIONAL COOPERATION

Recommendation: Support regional initiatives that bring Member States closer together

The integrated European energy market and the ambitious climate targets of the European Union will only be achievable if European countries work closely together. The last decades have shown that much progress has taken place in cooperation projects that started on a regional level. Successful models have subsequently been extended geographically. For example this has been the case with the establishment of market coupling and the Pentalateral Forum (PLEF). CORESO and TSCNET are two other good examples of multilateral regional cooperation set up voluntarily by TSOs. European TSOs and market participants have always been at the forefront of such developments. Europe should continue to make use of this regional success model. Not all topics need to be regulated at the European level from the beginning and with a one-size-fits-all approach. The successes have taught us that regional learning adds value at a European level, providing proof of concept and more rapid implementation, which is then ripe for geographic expansion.

The Roundtable therefore

- Supports cooperation on a regional basis.
- Supports incentives that make the participation in cross-border energy projects at regional level attractive for Member States and companies (such as multi-country energy infrastructure in the North Sea) and tackle the associated regulatory challenges (e.g. caused by multi-country infrastructure investments or the combination of interconnectors and offshore wind connections on the same cable).
- Recognises that CORESO and TSCNET are two good examples of multilateral regional cooperation, where services that are fit to be delegated, for efficiency reasons, can be performed by these two regional entities set up by TSOs.
- Underlines that the EU could also play a role in supporting multinational cooperation in terms of security of supply aiming at finding common rules for dealing with simultaneous scarcity situations. Relevant third countries should be included in the discussions on those topics. The Electricity Coordination Group (ECG) could be a relevant platform for such collaboration.

Recommendation: Tackle the real obstacles for closer cooperation on system operations

Closer cooperation between neighbouring TSOs is hindered today by some differences in the respective national laws and regulations. The difficulty in the financing of multilateral remedial actions across borders is one example of this problem. It is of highest priority to remove some important obstacles linked to national laws and regulations for an even better cross-border coordination of system operations.

Recommendation: Reinforce Regional Cooperation on system operations without diluting the responsibility for security of supply

The Roundtable's member companies are in favour of continuing improving the cooperation in a pragmatic way on system operations. Just as in the past decade, TSOs will continue to deepen their cooperation and to extend the services for cooperation that are delivered jointly by Regional Security Coordinators (RSCs). However, in the view of the Roundtable, the mandatory introduction of Regional Operational Centres (ROCs) does not only counteract the voluntary cooperation that has been introduced so far but also runs the risk of endangering security of supply. Real time operation security ensured by TSOs is indeed largely determined by decisions made ahead of real time in the operational planning stage, while continuously taking into account real time data. TSO expertise about the local grid is also vital in critical situations to define a suitable solution. Should some non-binding recommendations currently provided by RSCs become binding, this may prevent TSOs from preparing the operation through the most suitable options ahead of real time and from reacting in the appropriate way in real time. In case of wrong decisions made by ROC leading to a blackout, TSO would also become responsible for the consequences of decisions made by another entity. Besides, by transferring inappropriate responsibilities to the ROCs, the European Commission could create a serious conflict as regards national responsibility over system security and with the principle of subsidiarity. RSCs have produced successful results until now and are set to develop dynamically over time, building on experience gained. The EU should support their development.

The Roundtable fully supports the European Commission's objective to improve security of supply in a highly and increasingly interconnected European electricity transmission system, and recommends thus the following:

- Focus on the implementation of the Network Codes and guidelines, and the five critical services defined by ENTSO-E for RSCs, which have been recently adopted to improve regional cooperation on system operation. They will provide European TSOs with the services identified until now as necessary to operate in a coordinated manner and to guarantee the security of the system with an optimum use of the infrastructure.
- Regional cooperation regarding system operations should continue to take the form of service provisions, with TSOs continuing to have final responsibility as regards security of supply.
- The list of additional functions proposed by the European Commission to be provided by RSCs should be "potential" and their implementation based on a careful analysis of both their utility and efficiency.
- The proposal from the Commission to have only one ROC per region for all the tasks to be performed would result in having only one ROC for continental Europe since ROCs, according to the proposal, shall be at least equal to Capacity Calculation Regions (CCRs) and CCRs are expected to merge pursuant to CACM regulation. This would lead to a different target than the regional one taken as the basis of the Commission's proposal. Besides, such an entity is not feasible at this stage since this would require computation capabilities and human expertise for advanced computations which are problematic.

- Regional cooperation with regard to adequacy assessment should be strengthened, as it might foster closer operational cooperation and could potentially bring significant benefits to consumers.

DIGITAL TRANSITION

Recommendation: Support innovation

In order to support the digital transition in the energy sector, proper investment incentives should be given to innovation.

- The Commission should support research on digitalisation in energy and streamline activities in its funding programmes.
- Financial support for the development of emerging technologies should be considered, in order to ensure their entry into the market.
- Research and pioneering projects should allow for the assessment of the implications of the risk of cyber-attacks and system errors on optimal ICT-architecture, market design and regulation.
- Pilot regions should be established for the use of modern flexibility instruments that show the benefits for customers and for system stability.

Recommendation: Improve data management

The trend towards decentralisation and digitalisation will lead to a stronger role for ICT and data. Decentralised generation, battery storage and Demand Side Management (DSM) shift the sources for flexibility from the transmission level to the lower voltage level of the system.

- Distinguish data according to its use between a commercial use of data and a regulated use of data (public service of data for regulated actors). Such a classification would result in the clarification of data ownership and would therefore allow for the necessary investments needed in smart grid technologies and distribution systems.
- It is essential that TSOs have access to sufficiently precise and real-time data in order to improve balancing, forecasting and the use of ancillary services for a more cost and resource efficient system operation.
- For better RES integration and the delivery of value-added services to customers, regulated bodies such as DSOs and TSOs should be allowed to constitute data hubs through which all interested commercial parties should be granted access to customer and market data, provided the consumers' consent is given.
- Further harmonisation of the regulatory framework on data management and data protection is needed (e.g. standards for data and transfer between TSOs and DSOs).

UNITED KINGDOM EXIT FROM THE EUROPEAN UNION

On 23rd June 2016, the United Kingdom voted to leave the European Union. At this critical time for the EU, the Roundtable would like to reaffirm its full support for the European project, as well as the need to have open societies in which both businesses and citizens can prosper. In terms of energy, Brexit raises major challenges for energy investors in the EU and the UK, in a context where a high level of investment is needed. It is of utmost importance that these challenges are addressed as part of the upcoming Brexit negotiations.

Recommendation: Energy should be given careful consideration in the upcoming Brexit negotiations

Cooperation on energy between the EU and the UK has been extremely positive in the past decades. It has brought benefits to EU and UK citizens alike, by way of increased security of supply, more affordable energy prices and lower carbon emissions.

For these reasons, there is a large consensus among all energy market actors (UK and non-UK) on the need to continue this long-standing cooperation. Preserving and even strengthening the current level of cooperation should be a minimum objective of negotiators from both sides.

- The post-Brexit agreement should feature a specific chapter on energy to prevent any negative impacts on the mutually beneficial energy cooperation between the UK and the EU in terms of security of supply, affordability and low carbon emissions.

Recommendation: A post-Brexit deal should ensure that energy continues to be traded efficiently between the EU and the UK

Both the EU and the UK have benefited from common trading arrangements through the Internal Energy Market (IEM). In particular, EU countries have been traditionally significant suppliers of electricity to the UK. Other trends are observed on the gas side, where the UK is actually a transit country for Norwegian gas going to the rest of the EU. A post-Brexit deal should guarantee that energy continues to be traded efficiently between the EU and the UK, in order to deliver lower energy prices to final consumers.

Brexit raises also some significant challenges for Ireland, which is connected to the EU's Internal Energy Market through the UK. This is another crucial reason why Brexit should not bring obstacles to efficient energy trading across borders.

- A post-Brexit deal should ensure that the free trading of energy between the EU and the UK continues – no tariffs or taxes on imported energy should be put in place by either side following Brexit.
- It should also foresee an agreement to continue to jointly work on the continued harmonisation of the European regulatory framework following Brexit (Network Codes and guidelines, security of supply arrangements, market design). This is to ensure that the benefits of an integrated energy market can still be reaped in the EU and in the UK.

Recommendation: EU and UK policy-makers should provide certainty and stability to energy investors

It is essential that the uncertainty caused by Brexit does not result in delays or cancellations of energy projects, which are critical to complete the Energy Union. In recent years, considerable efforts have been put into increasing the UK's level of interconnection, with several interconnector projects currently being built (North Sea Link to Norway, NEMO to Belgium) or due for final investment decisions in the near future (IFA2 to France, Viking Link to Denmark). Furthermore, additional cooperation is foreseen in the North Sea Region, which will require the full participation of the UK.

Policy-makers have a key role to play in increasing certainty and putting in place a stable regulatory framework, which is favourable to investments.

In the short term:

- Continue the “business as usual” support for energy projects in both the EU and the UK.
- Continue and enhance the support for interconnector projects to help build a more connected European market.

In the long term:

- Retain the 2030 climate and energy objectives as guiding principles for energy policy, both in the EU and in the UK.