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ELECTRICITY FOR EUROPE

MANIFESTO

FOR A BALANCED, MORE EFFICIENT EUROPEAN ENERGY POLICY*

POWER FOR A COMPETITIVE EUROPE

February 2014

** References in the Manifesto to: i) a "robust CO2 price signal" to determine the most effective generation mix after 2020; ii) a "binding 2030 greenhouse gas reduction target of at least 40%"; and iii) an ETS "annual linear reduction factor in the region of 2.3%" are not supported by EURELECTRIC's Polish member.*

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Energy is a major EU economic policy. It fuels growth in living standards and is the backbone of a healthy economy. Electricity companies power schools and hospitals, railways and buses, businesses and homes. Their products and services drive economic growth, creating jobs and prosperity for 500 million citizens in Europe. An efficient and competitive European electricity sector is fundamental to Europe's competitiveness and access to reliable and affordable energy is thus central to the advancement and development of society and the European economy as a whole. **EURELECTRIC remains fully committed to an energy transition leading to affordable, sustainable, competitive and secure energy supplies.**

Policymakers determine the context in which the power sector operates. They can create conditions that allow the power sector to thrive and to achieve the EU's energy policy objectives of competitiveness, sustainability, and security of supply. Changes made or proposed for power companies have a wide impact and the potential to touch the lives of all citizens of the EU. It is thus essential that policymakers ensure a sound, secure and stable regulatory framework that provides adequate economic signals to investors. By losing sight of vital principles such as cost-efficiency and confusing core objectives with policy instruments, policymakers are damaging the investment climate and preventing decarbonisation at lowest cost. In economically austere times, this is also putting the achievement of their stated climate and energy policy objectives at risk.

Energy and climate policies must be focused on what is best for the entire power system and all its participants. National and European policymakers must take greater care to avoid policy-induced inefficiencies and market distortions that encourage free-riding and, in doing so, unnecessarily push up the costs of providing electricity and raising the bills for Europe's customers. They must be guided by a system approach that looks at what is best for the entire power system and all its participants, from customer to generation to grid company. Affordable energy is key in this regard and appropriate measures must be taken at government level to combat and prevent fuel poverty; increasing taxation on energy is not in line with combatting fuel poverty and with maintaining the competitiveness of the European economy.

Major new investments in the power sector are crucial to the affordability, sustainability and security of Europe's energy supply, both in the short and in the long term. EU scenarios envisage €1 trillion total energy sector investment, including new electricity generation assets, new storage, smart technologies, new grids, energy efficiency, and research by 2020. This is particularly challenging in the light of current economic conditions across Europe and the unfavourable investment climate caused by uncertain regulatory and political trends at EU and national level.

Policymakers should make Europe's energy and climate policies stronger and more effective by refocusing on well-designed markets and appropriate regulation of networks so as to ensure an economically sound operation of the entire power system and renewed investment in the future, and by reorienting energy policy towards cost-efficiency and competitiveness.

EURELECTRIC is thus calling for more coherence in energy and climate policies and instruments and urges EU Institutions and national governments to increase their joint efforts in support of the key points outlined below. Strong cooperation and concerted action will be needed to help the ailing European economy to get back on its feet and allow the European power sector to take on a leading role in cost-effective decarbonisation, promoting economic growth and ensuring a competitive Europe for generations to come.

EURELECTRIC sees 3 areas where European Institutions and EU Member States must increase their commitment to a fair and competitive energy system. Across all of these areas, policymakers must give priority to ensuring more efficient policy tools and measures, and to enabling innovation – the key dimension which leads us through the energy transition to the carbon-neutral and ICT-based power system of tomorrow.

1. **Delivering cost-efficient, competitive energy for Europe's businesses and customers** through empowerment of the final consumer, modernisation and adaptation of the electricity networks, proper functioning of energy markets and the evolution of RES development schemes.

- Ensure properly functioning electricity and gas markets while also taking into account regional and country specifics (e.g. state of development of regional interconnections)

  - *Full and speedy implementation of the Third Energy Package.*

  - *Ensure progress towards the political goal of an integrated European energy market by 2014. To this end, encourage coupling of regional markets based on a clear roadmap with defined milestones.*

  - *Develop network codes in line with the Target Models for the integration of day ahead, intraday, and balancing markets.*

  - *Reinforce the grid at transmission and distribution level where the socio-economic benefits are positive.*

  - *Clarify the scopes and interaction mechanisms between players, in particular the legal framework with respect to electricity storage and grid operators, avoiding conflicts of interest and respecting the unbundling rules.*

  - *Promote competitive and flexible gas markets allowing CCGTs to act more flexibly and help ensure the smooth integration of RES into the electricity system.*

  - *Promote projects aimed at diversification of gas supply, such as LNG terminals and gas pipelines.*

  - *Ensure that physical trade in energy is not hampered by the revision of EU financial regulation which could adversely affect liquidity of the market and hedging strategies.*

- Design support schemes for low-carbon generators to expose them to market prices. Low carbon generators should be incentivised to sell their production into the market and carry out the same obligations as other generators, such as balancing.

- Energy sector subsidies should be progressively phased out moving towards 2020 and beyond, in line with the principle that market interventions must be necessary, proportionate and transitional. Existing contracts to support renewables must be respected until the foreseen time horizon.

- All generation technologies should internalise their associated costs in order to create a level EU playing field.

- Empower consumers and unlock the demand side potential

  - *Remove regulatory distortions such as regulated prices where they still exist and avoid introducing new restrictions on pricing under the guise of "consumer protection".*

  - *Develop a smart market model by 2020, including a framework for information exchange between all parties involved with DSOs as market facilitators to ensure high quality retail market processes e.g. switching.*

  - *Allow the demand side to actively take part in the electricity markets by means of dynamic pricing.*

  - *Ensure that customers' bills are kept in check through effective wholesale competition, efficient and innovative grid tariffs and appropriate taxation rules. Bills should be transparent with a breakdown of cost-components, including those derived from RES support schemes, and policymakers should help the industry tackle the growing complexity of managing outstanding liabilities and bad debt, including fiscal and regulated components.*

- Modernise Europe's electricity system. Europe's electricity transmission and distribution networks are the backbone of the electricity system. Distribution networks play a vital role in delivering electricity to customers, wherever and whenever it is needed. The increasing share of variable renewable energy sources will prove challenging to the distribution electricity system's stability, security and reliability.

  - ► *Member States and regulators should ensure that distribution customers pay fair tariffs that are cost-reflective and should avoid cross-subsidisation or free-riding. Electricity system interventions need to reflect its unique characteristics and should not be used as a tool to deliver secondary social or industrial policy objectives. Therefore network tariffs should progressively be more capacity-based and possibly peak time differentiated.*

  - ► *Design smart regulation that allows network operators to invest in their grids in the most cost-efficient way. Such regulation should strike a balance between investments in new grids and an optimal use of the existing grid.*

  - ► *Regulation should also enable the necessary innovation, including smart grids and smart meters.*

- Enable trade in primary fuels, including gas: remove trade restrictions both within Europe and between Europe and its international partners.

2. Securing supply through competitiveness and innovation

- Investments should mainly be driven by market signals, guaranteeing investor confidence and ensuring competitive costs, not by command and control. Boom and bust cycles based on subsidies and non-market based choices have to be avoided as they destroy value and result in stranded assets.

  Enabling framework conditions and adequate infrastructures need to be put in place to safeguard security of low-carbon supplies. Markets might need some adjustments above all with a focus on the longer-term. Work should be undertaken so that subsidies are progressively phased out moving towards 2020 and beyond. Instead, a robust CO_2 price signal should determine the most effective generation mix for achieving the EU's policy objectives. This has to be combined however with RDD support for selected technologies, notably on the investment side, to bring them to cost-competitiveness.

- European and national policies to ensure security of supply should complement and reinforce one another, bearing in mind the need to promote a diversity of low-carbon technologies and energy sources.

- The EU and Member States should streamline permitting processes and remove unnecessary regulation restricting investment in generation technologies.

- Integrated European electricity markets require at least a regional approach if not an EU approach to assessing generation adequacy, determining the need for new generation capacity and transmission infrastructure, and avoiding over-capacity. A regional system operator is a step in the right direction. TSOs have already started to create coordinated functions for capacity assessment and security monitoring on regional level and should continue deepening their cooperation, acting as a single EU system operator being the final objective of this process.

- Capacity remuneration mechanisms (CRMs, including strategic reserves) are now becoming a de facto reality in many EU Member States. Policymakers should take care to ensure coordinated development of CRMs. If introduced, CRMs must be market-based, technology neutral and non-discriminatory i.e. give equal treatment to existing and new units for generation, storage, demand and interconnectors, and should be coordinated at regional level to ensure consistency and minimum distortion to the internal energy market. CRMs should only be introduced as a means of ensuring security of supply, not to achieve other policy objectives.

- Promote innovation in technologies, products, services and business models to ensure continued security of supply. Foster research, demonstration and development (RD&D) activities to push forward innovation in all low-carbon technologies relevant to the new power system, including technologies such as carbon capture and storage, energy storage, power to gas, distribution grid modernisation, smart meters, renewable energy technologies and energy efficiency.

- Maintain and progressively enhance EU and Member State funding for energy RD&D and rebalance such spending towards technology demonstration which is under-funded at present, in particular by Member States.

3. Reducing environmental and climate impact

- Reduce carbon emissions

  ► *Create an efficient framework which incentivises investment in low carbon generation technologies (renewable, nuclear, CCS). This will have the added benefit of reducing the EU's dependence on fuel imports.*

  ► *Adopt an economy-wide, binding 2030 greenhouse gas reduction target of at least 40% compared to 1990.*

  ► *Support the ETS as the most cost-effective instrument to deliver decarbonisation: Rapidly adopt the ETS back-loading proposal in 2013, increase the annual linear reduction factor in the region of 2.3% before 2020 and reform the EU ETS auctioning to a more robust system. The ETS should be extended to other CO2 emitting sectors of the economy after 2020.*

  ► *As electricity is increasingly decarbonised, extend the use of electricity by promoting its application in transport, in line with EU roadmaps, and in heating and cooling. Fundamentally review the primary energy consumption approach and align energy efficiency policy with carbon goals. In the immediate term, review the conversion factor used in the Energy Efficiency Directive, which today penalises the use of low carbon electricity compared to other energy sources.*

- A well-designed energy efficiency policy can significantly help to reduce carbon emissions in all sectors, including the transport sector. Promote energy efficiency by using market-based tools e.g. demand side management, supply side tools, storage or regulation where applicable e.g. transmission, energy-efficient appliances, lighting, etc.

- Encourage financing of energy efficiency from EU ETS revenues to prevent market distortions and electricity consumers paying twice, through government support levies and ETS credits.

- Achieve environmental objectives in a cost-effective way.

  ► *Coordinate policy instruments to minimise the cost impacts of the 2013-17 BREFs on LCP, Waste Incineration, Industrial Cooling Systems, Energy Efficiency, Industrial Emissions and Emissions from Storage.*

  ► *Avoid duplication of requirements with other legislative measures to minimise the cost impact of the current revision to the Environmental Impact Assessment Directive.*

  ► *The benefits of electrification of heating, cooling and transport should be fully considered in proposed air quality legislation.*

The manifesto has been agreed by the associations representing the electricity industry in the following European countries:

Austria	Österreichs E-Wirtschaft
Belgium	Fédération Belge des Entreprises Electriques et Gazières (FEBEG) / Federatie van de Belgische Elektriciteits- en Gasbedrijven (FEBEG) Synergrid
Croatia	Croatia EURELECTRIC Section – Croatian Chamber of Economy
Cyprus	Electricity Authority of Cyprus
Czech Republic	Cesky svaz zamestnavatelu v energetice (CSZE)
Denmark	Dansk Energi
Estonia	The Union of Electricity Industry of Estonia
Finland	Energiateollisuus ry
France	Union Française de l'Electricité (UFE)
Germany	Bundesverband der Energie- und Wasserwirtschaft e.v. (BDEW)
Greece	Hellenic Electricity Association (HELAS)
Hungary	EURELECTRIC Magyarorszagi Tagozat
Iceland	Icelandic Energy and Utilities (SAMORKA)
Ireland	Electricity Association of Ireland (EAI)
Italy	ASSOELETTRICA
Latvia	Latvian Association of Power Engineers and Energy Constructors (LEEA)
Lithuania	Nacionalinė Lietuvos Elektros Asociacija
Luxembourg	Organisation des Entreprises d'Electricité du Luxembourg
Malta	ENEMALTA Corporation
Netherlands	Energie-Nederland Netbeheer Nederland
Norway	Energi Norge
Poland	Polski Komitet Energii Elektrycznej (PKEE)
Portugal	Associação Portuguesa das Empresas do Sector Eléctrico (ELECPOR)
Romania	Romanian Institute for Energy Development Studies (IRE)
Slovakia	Zväzu zamestnávatel'ov energetiky Slovenska (ZZES)
Slovenia	Slovenian Chamber of Commerce, Energy Association, EURELECTRIC Section
Spain	Asociación Española de la Industria Eléctrica (UNESA)
Sweden	Svensk Energi Swedenergy AB
Switzerland	Verband Schweizerischer Elektrizitätsunternehmen (VSE) / Association des Enterprises Électriques Suisses (AES)
Turkey	Türkiye Elektrik Sanayi Birliği (TESAB)
United Kingdom	Energy UK Energy Networks Association (ENA)

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ELECTRICITY FOR EUROPE

The **Union of the Electricity Industry – EURELECTRIC** is the sector association representing the common interests of the electricity industry at pan-European level, plus its affiliates and associates on several other continents.

In line with its mission, EURELECTRIC seeks to contribute to the competitiveness of the electricity industry, to provide effective representation for the industry in public affairs, and to promote the role of electricity both in the advancement of society and in helping provide solutions to the challenges of sustainable development.

EURELECTRIC's formal opinions, policy positions and reports are formulated in Working Groups, composed of experts from the electricity industry, supervised by five Committees. This "structure of expertise" ensures that EURELECTRIC's published documents are based on high-quality input with up-to-date information.

For further information on EURELECTRIC activities, visit our website, which provides general information on the association and on policy issues relevant to the electricity industry; latest news of our activities; EURELECTRIC positions and statements; a publications catalogue listing EURELECTRIC reports; and information on our events and conferences.

EURELECTRIC pursues in all its activities the application of the following sustainable development values:

- **Economic Development**
  Growth, added-value, efficiency
- **Environmental Leadership**
  Commitment, innovation, pro-activeness
- **Social Responsibility**
  Transparency, ethics, accountability

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