CEER Position on the European Commission's Policy Framework for Climate and Energy 2020-30

13 March 2014

1 Introduction

The Council of European Energy Regulators (CEER) welcomes the European Commission's Policy Framework for Climate and Energy 2020-30 (hereafter referred to as the "policy framework") and its **recognition of the importance of regulatory investment certainty, and the value of coordinated approaches amongst Member States, as key contributions towards a more competitive, secure and sustainable energy system.**

We also support the Commission's use of cost-effectiveness as a criterion for selecting the most appropriate EU-wide emissions reduction trajectory (assessed as 40% by the Commission). Through CEER, Europe's energy regulators aim to promote well-functioning and competitive EU energy markets so that consumers receive fair prices, and cost-effectiveness is a key consideration in regulatory decision-making.

These points were made as part of CEER's response[1] to the Commission's Green Paper consultation in July 2013, where we responded on issues relating to energy security, market development, cost-efficiency, regulatory certainty and financing arrangements, as these areas directly affect the future development of the Internal Energy Market (IEM) and fall within the competencies of National Regulatory Authorities (NRAs).

The CEER Green Paper response focused on 6 key strategic points relevant to regulatory activities, these being:

1. Optimal regulatory design benefits from clarity over energy sector goals;
2. Reaffirming the importance of achieving rapid implementation of the 3rd Package;
3. Delivering investment and consumer protection;
4. Importance of "total system" functionality;
5. Importance of (intelligent) networks; and
6. Coherence as a key principle in formulating 2030 arrangements.

Building on our 6 key strategic points above, the CEER position opens with a commentary on implications for energy consumers, and then provides a regulatory position on each of the main areas in the Commission's policy framework.

[1] CEER Response to the European Commission Green Paper "A 2030 Framework for Climate and Energy Policies", June 2014

2 Consumer perspective

Through CEER, Europe's energy regulators aim to promote well-functioning and competitive EU energy markets so that consumers receive fair prices, the widest choice of supplier, the highest quality of supply and simple, transparent information about their energy use.

In 2012, CEER launched its joint statement (in conjunction with BEUC, the European Consumers Organisation) on its **2020 Vision for Europe's Energy Customers**. This joint statement sets out four key principles governing the relationship between the energy sector and consumers: ***Reliability, Affordability, Simplicity, Protection and Empowerment.***

CEER acknowledges the need for urgent action to deliver pan-European emissions reductions, and the importance of EU leadership internationally in this area. There are considerable (and diverse) potential benefits to consumers associated with a low carbon energy system, including improved energy security, lower fuel costs, associated energy efficiency benefits and improved price stability.

However, the speed and scale of emissions reductions required may negatively affect efforts to maintain downward pressure on domestic consumers' bills, particularly if concerns over international competitiveness mean some industrial sectors are exempt and when the associated infrastructure implications of future climate and energy policies are taken into account. We note that the Impact Assessment accompanying the 2030 framework indicates that the combined effect of the greenhouse gas (GHG) and renewable energy (RES) targets is likely to be a 2.7% increase in electricity network maintenance and investment costs, and a 1.9% increase in the average electricity price across Europe by 2030.

It is therefore vital that the scale of investment necessary to deliver against climate goals is secured on a ***necessary, proportionate and cost-effective basis*****,** so as to avoid excessive costs being passed through to consumers.

To this end, CEER welcomes the Commission's use of cost-effectiveness as a key criterion in formulating its policy proposals which allow the development of the technologies and industries required to deliver the decarbonisation roadmaps. The flexibility inherent in combining the GHG reduction target with a RES penetration target set at EU level (as opposed to national-level targets) should allow the most cost-effective combinations of RES technologies, subsidy schemes, energy efficiency measures and GHG abatement options to be adopted.

However, CEER queries the absence of a strong consumer mandate (or references to consumer attitudes / benefits to consumers) in the policy framework, and encourages the Commission, Council and Parliament to ensure the interests of consumers are considered ahead of final policy formulation.

3 Reducing greenhouse gas emissions by 40% and increasing the share of renewable energy to at least 27%

This area falls outside the competences of CEER's members. However, the setting of GHG and renewables targets directly affects regulatory arrangements, and observations are offered on this basis.

CEER welcomes the ambition and clarity provided by the Commission's proposals for a new reduction target for domestic GHG emissions of 40% compared to 1990, to be shared between the EU Emissions Trading Scheme (ETS) and non-ETS sector. The policy framework should help address issues of investor certainty for policy and regulatory arrangements beyond 2020.

We also welcome the EU headline target of at least 27% RES penetration by 2030. By indicating the level of ambition across Europe, the Commission has signalled a clear commitment to the development of renewable generation technologies and infrastructures. This is consistent with our Green Paper response, where we recommended that targets should be set by Member States, allowing for the economic and financial reality of each country.

We do, however, note that the absence of both sectoral (e.g. heat, transport) targets and national targets set in EU law may increase uncertainty (at least initially) in relation to proportions of RES-E on the system. This short-term uncertainty may in turn lead to significant network planning and cost implications for regulators in managing uncertain system balancing and financial arrangements.

Therefore, energy regulators encourage the Commission to engage with Member States as soon as possible to establish clear, national RES-E targets, as well as a plan for delivering the GHG reduction target, to help achieve regulatory certainty (see further comment in Section 8 below). Alongside this development, we also call for continued efforts to harmonise RES schemes across Europe to support Member States' cost-effective delivery of their individual targets.

The co-operation and engagement of Member States in collectively meeting a RES target is also important from network integration and cross-border (e.g. Projects of Common Interest) perspective, as an overview of the aggregate Member State positions will be critical in supporting the large scale transmission network investments underpinning the IEM and wider GHG reduction ambitions.

4 Continued improvements in energy efficiency

CEER commented in its Green Paper response that any future climate and energy policies would need to take into account *existing and parallel policies* in considering the level and approach taken to emissions reductions. Alongside its ongoing transposition into national legislation, we therefore welcome the decision taken to relate the forthcoming review of the Energy Efficiency Directive (EED) to the policy framework.

Energy efficiency typically represents the least-cost GHG abatement option, and also provides a key means of engaging and empowering consumers in their energy consumption and managing their energy bills. Namely (and as per the Energy Efficiency Plan 2011[2]), "Energy efficiency is one of the most cost effective ways to enhance security of energy supply, and to reduce emissions of greenhouse gases and other pollutants. In many ways, energy efficiency can be seen as Europe's biggest energy resource." We therefore welcome efforts to give a more significant role to energy efficiency.

[2] http://ec.europa.eu/energy/efficiency/action_plan/action_plan_en.htm

Whilst the method and mix of generation are decisions for Government, CEER members are responsible for establishing a regulatory framework that incentivises the efficient operation of the transmission and distribution networks, and therefore have an interest in 'whole system efficiency' measures.

To this end, we would encourage the Commission (in both its upcoming climate and energy legislative proposals and its review of the EED) to:

- Ensure future legal instruments are supportive of (and do not conflict with) regulatory incentives on network operators to reduce network losses, achieve more efficient network management and enable demand-side flexibility.

- Support continued R&D and collaborative partnerships between network operators, suppliers, generators, technology providers and/or other parties to explore how networks can facilitate the take up of low carbon and energy saving initiatives such as electric vehicles, heat pumps, micro and local generation and demand side management.

5 Reform of the EU ETS

CEER notes the Commission's intention to make the EU ETS more robust by establishing a market stability reserve at the start of phase 4 trading. By delaying the changes until 2021, the policy framework ensures stability within the current phase of trading, assisting more efficient investment and so reducing costs to consumers. These reforms also have the potential to reduce the impact of other instruments on the carbon price.

However, the thresholds of the market stability reserve (12% and 100 million allowances as the figures concerning the placement of allowances in the reserve, and 400 million allowances concerning their release) are based on "what stakeholders have suggested would be the surplus range allowing for the orderly functioning of the market" (Commission document Questions and answers on the proposed market stability reserve for the EU emissions trading system[3], p4); therefore we would welcome more detail on how these numbers were reached and whether they remain robust in the event of unexpected interactions. We also question whether the market will continue to function as usual when trading in the vicinity of the reserve threshold, and encourage further investigation of this point as well as robust and ongoing monitoring of implementation measures to ensure effective market functioning.

6 Competition, affordability and security

Energy Regulators welcome the policy framework's focus on competition, affordability and security, which is closely aligned with the four principles of reliability, affordability, simplicity, and protection and empowerment as enshrined in our 2020 Vision for Europe's Energy Customers. We also welcome any guidance given on state intervention which helps to level the playing field and support the completion of the IEM. However, we would also restate the points made in our Green Paper consultation response that RES support can have further benefits beyond decarbonisation, including diversifying energy supply, which can in turn help to insulate consumers against fossil fuel price uncertainty and volatility.

[3] http://europa.eu/rapid/press-release_MEMO-14-39_en.htm

The policy framework appears to reflect the point that State Aid is available specifically to support less mature technologies that have the potential to efficiently decarbonise the energy system. We appreciate that this helps to achieve the transition in a cost-efficient manner, and is in keeping with our Green Paper response that support offered to technologies should be targeted at immature technologies with high potential. This is also consistent with the view put forward in our response to the Commission's Public Interventions Package[4] that a properly designed and closely monitored feed-in support scheme could be appropriate for certain immature but high-potential technologies[5].

We welcome the Commission's recognition that efforts to improve the energy performance of buildings, products and processes will be required to ensure a secure supply of energy, and that the completion of the IEM is vital for bringing clear benefits to consumers and allowing efficient cross-border integration of renewable generation. We also recognise the importance of developing cross-border interconnectors in this light, and in our response to the Commission consultation on generation adequacy, capacity mechanisms and the internal market in electricity[6] we noted the need for investment in interconnectors and improving current licensing procedures for new interconnection capacity.

We further note that there is no explicit recognition in the policy framework of the importance of renewable heating (and cooling), storage, demand-side flexibility or intelligent networks. We expect that all of these will be of increasing importance to ensuring security of supply in the 2020-2030 period, as recognised in the Commission's Public Interventions Package, due to the increasing proportion of low marginal cost and intermittent plant.

7 Policy framework governance

We note that the Commission's intentions for implementing the policy framework include national plans from each Member State setting out domestic measures to achieve GHG emissions reductions as well as individual targets for renewable energy and energy savings. As noted above it will be important that these plans set out clear individual RES targets to aid NRAs' network coordination and forward planning

We acknowledge that the envisaged three-step approach involving 1) Commission guidance; 2) preparation of plans at national level in consultation with neighbouring countries; and 3) assessment of final plans by the Commission represents a major step towards greater integration of energy issues across Member States. CEER would welcome the opportunity to advise policy makers on the regulatory issues associated with this direction of travel.

The proposed indicators and note of key complementary policies demonstrate a welcome acknowledgement of the need for coherence. Further to those noted, we would add that the framework must also be aligned to the revised Guidelines on trans-European energy infrastructure, the Strategic Energy Technology Plan and the Eco-Design Directive.

[4] CEER views on the Commission's Public Interventions Package: Delivering the internal electricity market and making the most of public intervention, December 2013

[5] However, we acknowledge that future uncertainty may mean subsidies for mature RES could still be appropriate after 2030.

[6] CEER Response to the European Commission Consultation Paper on generation adequacy, capacity mechanisms and the internal market in electricity, February 2013