

EFET response to the public consultation “Towards a new Energy Strategy for Europe 2011-2020”

1. Introduction

EFET¹ welcomes the European Commission stock taking document and the opportunity to give input.

EFET agrees to the view that a well functioning, competitive internal energy market is key for the long-term energy and climate objectives pursued by the EU and that investment signals should not be distorted or undermined.

However, we are concerned that the emphasis on new elements of the strategy may obscure the pressing need for implementation and enforcement of internal energy market legislation. Success will rely on establishing robust wholesale gas and electricity markets throughout Europe; improving the conditions for energy trading should remain the central strategy for the coming decade.

2. Current status of EU energy legislation implementation

(Point 1.2 of the EC document)

EFET agrees with the European Commission view that the current state of implementation of European energy legislation is overall poor.

Well functioning markets, accompanied by a consistent regulatory framework, are crucial to provide producers, suppliers and distributors with the necessary transparency and predictability to base their investment decisions on. Well functioning and well interconnected markets in Europe are necessary to allow resources to be shared across Member States, getting the most out of supply diversity (including from renewable sources), flexibility of demand and spare capacity. It is therefore important that Member States implement European regulation and avoid national rules that make European integration and a level playing field more difficult.

EFET has consistently pointed out shortcomings and obstacles to functioning cross-border markets. Regulated gas or electricity prices, cross-border fees and national trading licenses are examples of national measures that need to be phased out because they hamper the development of a true European market.

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 90 energy trading companies, active in over 27 European countries. For more information: www.efet.org

3. Transmission capacity for cross border transactions

(Point .2.2.3 of the EC document)

In our view, the focus should be placed on making the most of existing infrastructure in terms of checking that long-term capacity reservations are not anti-competitive, ensuring a co-ordinated EU approach to the management of infrastructure, removing discrimination between national and cross border transactions, and the provision of locational signals to encouraging efficient siting of electricity production and demand.

On the power side, we underlined in our previous work that it is possible to attain more transmission capacity for European cross border electricity transactions without building new infrastructure. Instead, regulatory incentives for TSOs should be used in order to improve the firmness of capacity rights and to maximize the capacity allocation. EFET has argued that there are wider benefits in TSOs taking on the responsibility of offering fully firm transmission capacity rights, including ensuring that TSOs face appropriate regulatory incentives, and that the present imbalance between risk and reward for TSOs should be reconsidered and that perverse incentives for TSOs to limit capacity should be abolished. To this end, EFET suggests a broad framework for additional regulatory incentives that might assist in achieving the goals of capacity maximisation, firmness and more competition in the European power markets.

EFET recognises that energy infrastructure should be addressed in the upcoming period, particularly the difficulties with authorisation procedures and risks for investments.

ACER and the ENTSOs should collaborate to develop EU gas and electricity grids that facilitate energy market integration. A prerequisite for consistent network development plans is for ENTSOE and ENTSG each to have a model of the whole EU electricity and gas grids, and that the models are populated by good quality data based on consistent assumptions across all TSO systems. ACER and the ENTSOs may benefit from more participation by the European Commission in the implementation of the infrastructures plans published by the ENTSOs, since the projects included facilitate the flow of the energy across the EU and contribute to improving the security of supply. The European Commission should have a more proactive role, overseeing the process and planned schedule.

4. Energy infrastructures

(Point 2.2.3 of the EC document)

As we have stated in our section 3 above, the European Commission and national regulators should be reviewing carefully the extent to which TSOs currently use operational and commercial tools at their disposal, to maximise the allocation of transmission capacity for export and import transactions, render the allocation firm and facilitate secondary market transactions in transmission capacity rights. In all cases where new capital expenditure is foreseen and is justified by reference to internal market needs, regulators should complete and publish such a review, before determining that particular links or lines merit physical reinforcement.

When defining the future strategies related to the development of infrastructure and interconnections it is essential that the EU Commission considers a complete view of the planned fundamental structure of the European energy market which comprises:

- The integrated energy market with implemented target models for gas and for electricity
- The diversification of supply sources
- The planned/authorized construction of conventional and renewable production capacity considering location, technology and type of usage
- The foreseeable progress and innovation in infrastructure technology

This is important in order to define the right investment priorities based on the logic of efficient use of scarce resources.

In relation to the infrastructure development it is important that privately driven projects such as merchant lines both in the field of electricity and gas, which contribute significantly to achieving European targets should get fair and speedy treatment. For the sake of transparency and coordinated network planning on a pan European level, privately driven projects should be included in the official TSO network planning initiatives.

With regard to the ENTSOG Ten Year Network plan, we have already expressed concerns related to inefficiencies in not optimizing the use of existing infrastructure and unexplained differences in capacities on either side of the borders. The current modelling approach also fails to identify European regions with potential oversupply but not enough interconnection capacity with the rest of the EU grid. The decisions about which projects are included (e.g. 'mature' projects) needs to be made transparent otherwise this could lead to underinvestment on necessary infrastructure.

Regarding the recent importance of LNG projects, although this infrastructure can increase security of supply by diversifying origins in a country or region, they do not in themselves foster the development of the internal market. Countries with a lot of planned regasification capacity may not see advantages in developing internal cross border capacity. Bearing in mind the goals of security of supply and also the European internal market better access to interconnection capacity and in some cases additional interconnection capacity with neighbouring countries is a better solution than the construction of increased LNG or storage capacity in a local market.

5. Transparency of information and market integrity

(Point 2.2.3 of the EC document)

EU-wide harmonized and clear rules are necessary to create true market transparency and market integrity for the benefit of the further development of the wholesale energy trading market.

Information provision could be considered in two broad categories: "fundamental data" and "post-trade transparency".

1. Disclosure of data about use and availability of infrastructure ("fundamental data")

EFET supports measures taken at European level which help to improve transparency and guarantee integrity. We have already worked closely with the European Commission and with ERGEG over several years, to improve transparency of data about the availability and use of infrastructure used in the European power and gas sectors.

EFET has been prominent since 2002 in advocating advances in the disclosure of fundamental data for the benefit of all participants in power and gas wholesale

markets. Progress has been made in some countries and regions. But we have latterly encouraged the Commission to reconsider making disclosure requirements binding across the whole of Europe, since in some cases clear limits have transpired as to what can be implemented using voluntary arrangements.

2. Data about transactions (“post-trade transparency”)

The aim should be to reach greater post-trade transparency regarding wholesale dealings in energy, whether physical or financial, brokered or exchange-based.

An EU wide regime is crucial, to ensure common application of transparency and market integrity rules, and to support the further development of integrated, robust and efficient wholesale markets.

EFET will send an extensive explanation of our position in response to the European Commission consultation on the integrity of traded energy markets.

6. Energy efficiency and saving

(Point 2.2.3 of the EC document)

EFET agrees that energy saving potential is underutilised. In this context further work is needed to examine behavioural changes in the way energy is used in the economy. Projections of demand are too often based on straight line extrapolations rather than recognising that technologies and behaviour will change, and that this can be influenced by policy. Such an analysis needs to form a part of any strategic assessment.

Developing a demand response among end-users must be a major aspect of the EU energy strategy since this is a key element to incorporating high amounts of renewable and other low carbon generation. There are numerous existing and developing technologies that allow for the effective or virtual storage of energies, including electricity, that it will be possible to make available to consumers.

Developing these capabilities over the next 10 years requires an extension in the use of intelligent meters to consumers and the development of new tariff structures based on unadulterated price signals coming from liquid wholesale markets.

This does not necessarily mean end users being exposed to changes in price on an hour-by-hour basis. Indeed it is likely that for the majority of consumers, these variations will continue to be managed by their suppliers. However the extension of intelligent metering would open up a wide range of load management services that suppliers could offer which would both feed through into benefits for consumers and reduce the cost of incorporating intermittent renewable supplies into energy provision.

7. Shortcomings of the current renewable energy policy

(Point 2.2.3 of the EC document)

We agree that progress towards renewable energy targets will be one of the major factors influencing the European energy sector in the period 2011-2020.

An EFET position paper under development sets out a transition plan to a more co-ordinated EU renewables policy that has a better chance of success. We believe that the success of the Emission Trading Scheme in efficiently reducing EU carbon emissions provides a model for achieving other sustainability objectives.

EFET believes that a successful EU-wide trading system for renewable energy would increase the likelihood of meeting the EU target and provide a framework, which would allow the share of renewable energy into the total energy mix to go even higher than 20%. Without greater harmonisation, the risk is that the cost of achieving the targets will become an increasing burden and public support for the targets will be eroded.

Renewable energy support measures and subventions *can* be designed to be compatible with market mechanisms. A liquid market in energy and renewable certificates in particular, will promote increased efficiency in RES production and supply and will ultimately reduce costs to consumers. Ideally, this requires a central EU system of tradable certificates which spans all renewable sectors. To achieve this, renewable energy producers must be fully integrated in the power market, being obliged to nominate (within reasonable gate closure times) and to balance their portfolio like other producers. In addition, cross-border trade should be based on an efficient use of existing infrastructure with maximum capacities offered to the market (without any undue margin taken by the TSOs due to a lack of control on intermittent generation) and with cross-border trading platforms which allow continuous trading until close to real time (H-1).

In addition a specific attention should be taken in order to ensure that wind generation can be correctly priced by the relevant stakeholders (especially TSOs) at its relevant economical value and not according to regulated prices. It is indeed very important that wind generation which already represent huge amounts in some countries is correctly priced. This is increasingly important as European energy markets will be linked through market coupling (price coupling) and continuous cross border intraday trading.

Efficient solutions to meet the EU's ambitious commitments toward a low-carbon energy system cannot be met by renewable energy alone. Together with energy efficiency, natural gas can be the best option which can today meet demand and also significantly reduce emissions through the replacement of more polluting fuels. The Energy Strategy for Europe for 2011-2020 must be designed to maximise all the opportunities available to move towards a low-carbon energy system, with actions today as well as in the medium to long term.

The new energy strategy should allow the market to deliver a low-carbon energy system at the lowest cost to society. For example, gas technology includes solutions that can rapidly secure supply and achieve large emission reductions², whilst other technologies continue being developed. Natural gas will also be crucial in backing up intermittent energy supply from renewable sources, such as wind and solar.

² Natural gas is the fossil fuel with least emissions. A gas fired power plant emits 60-70% less CO₂ than an old coal fired power plant, and about 50% less than a modern coal fired power plant. Therefore replacing old coal fired power plants by gas fired plants will result in significant reductions of emissions. Gas fired power plants have the shortest development times, and the lowest capital cost. Emissions can even be more reduced by retrofitting CCS on a gas fired power plant, which has per MWh produced a similar cost as CCS for coal.

Finally, we urge the Commission to align the Energy Strategy for Europe for 2011-2020 with the comprehensive set of measures implemented in the EU Climate-Energy Legislative Package approved by the Council in April 2009.

8. A strong and coordinated external energy policy

(Point 2.2.3 of the EC document)

Global gas markets are evolving rapidly as a result of technological innovation driven by effective competition. This provides an opportunity to develop better functioning European gas markets with independently determined prices. This will contribute strongly to security and diversity of supply.

The recent international events regarding gas supply from Russia have led to further debate about supply diversification - not only with regard to the routes, but also to the diversification of origins by increasing import capacity from other areas. External energy policy should recognize the role played by Algeria, Norway and other North-African countries, and focus on new ways of enabling companies to find commercial opportunities and establishing new energy routes. We therefore support strong and coordinated EU political relations with all energy supplier countries.

For example, investments in third countries (outside the EU) could be jeopardised by undue differences in regulatory and legal rules. European institutions should therefore strive for an adequate commercial and legal framework to reduce these risks.

9. Protecting the EU citizens

(Point 2.2.3 of the EC document)

Issues for consideration for the short-term:

- Creating a level playing field among the energy producers through the implementation and deepening of the internal energy market, notably the full independence of TSOs to ensure equal conditions for all market players, and if necessary through further measures in particular in markets in which competition is not working efficiently.
- Competition is the key vehicle to move towards a truly internal energy market in Europe. This improves liquidity and facilitates a level playing field between market participants. An EU-wide approach to capacity allocation and congestion management is essential. We support the development of binding guidelines and network codes, but these need to cover all capacity (new and existing) so that Europe can converge on a single consistent approach. We support the emphasis on capacity allocation and congestion management because market parties gaining access to additional firm IP capacity could help open up remote markets. Additionally, the standardisation and harmonisation of products, processes and communications will improve operational efficiency, and hopefully reduce IT systems complexity. Easier access to capacity could enable capacity booking strategies which may lower OPEX for the long-term. In order to promote a coordinated, consistent and coherent approach in Europe, we see a case for stringent rules and principles

for CAM and CMP with relatively minor competencies for national regulators to interpret and apply. Primary capacity should be allocated auctions as the only fair market mechanism. But most of the time the TSOs should have built sufficient capacity for all capacity demands to be cleared at the regulated price³.

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³ See EFET CAM and CMP framework guidelines essentials at <http://www.efet.org/default.aspx?menu=4945>