

EFET recommendations for a future EU strategy on energy system integration

The European Federation of Energy Traders (EFET)¹ is pleased to publish our response to the European Commission's consultation on a future strategy for energy system integration.² This future strategy proposed by the Commission aims at strengthening links between electricity and gas systems and energy end-use sectors across the EU economy. The objectives of the strategy reflect the interest of EFET in potential decarbonisation of the gas sector by harnessing market mechanisms and closer coupling of the gas and power markets at wholesale level.³

In order for the future energy system integration strategy to facilitate Europe's energy transition and help reach ambitious climate objectives in a cost-effective way, we believe it should be underpinned by the following five policy priorities.

Policy priorities to underpin efficient energy system integration and cost-effective decarbonisation of the EU economy

1. Setting an ambitious, **economy-wide climate neutrality objective at Union level**
2. **Strengthening the EU ETS** in the short term, as it currently applies to power generation and heavy industries, then **reforming and expanding** it to become a long-term driver for decarbonisation across the EU economy
3. Utilising **market-based mechanisms** and adapting market instruments whenever financial support for new, low carbon energy sources is considered, while **respecting sectoral unbundling rules**
4. Ensuring **pan-European coordination and cross-border implementation of any financial support schemes** for renewable, decarbonised and low carbon gases, especially in case national end-use prohibitions of hydrocarbons should be foreseen
5. Insisting on **technological neutrality** of measures, to include **a level playing field between power and gas systems**, so that users face a cost reflective allocation of costs across both types of grid, without cross-subsidisation

¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

² Please see our response to the consultation at the following link:
https://efet.org/Files/Documents/Internal%20Energy%20Market/Energy%20System%20Integration/EFET_recommendations%20for%20a%20future%20EU%20strategy%20on%20energy%20system%20integration.pdf

³ Please see the report by Frontier Economics for EFET "Gas decarbonisation and sector coupling: ensuring a market-based approach" available at https://efet.org/Files/Short%20Form%20Report%20-%20A%20market-based%20approach%20to%20gas%20decarbonisation%20and%20sector%20coupling_Frontier%20report%20for%20EFET%20.pdf

The actions that could be taken by both the Commission and national governments to foster integration of the energy system include:

- Accelerating debate of the proposed EU Climate Law, with a view to adopting it before the end of 2020
- Starting preparation of subordinate legislation under the Climate Law to:
 - Expand the sectoral coverage of the EU ETS in a series of planned steps
 - Revise the EU ETS cap and establish a timeline for progressive adjustment of the MSR intake rate and the LRF in the framework of the upcoming revision of the EU ETS Directive
 - Map out a Europe-wide framework for market-based allocation of any financial support needed in the short to medium term to accelerate a transition to consumption of renewable, decarbonised and lower carbon gases
 - Review the State Aid Guidelines for Energy and Environment, with a view to adapting them to an accelerated decarbonisation of the gas sector relying on market signals
- Redressing the current "non-whole system approach" to the use and allocation of costs of power and gas networks respectively. Market arrangements across electricity and gas should ensure that market participants face the forward looking costs they cause (or the benefits they create) on the energy system. This will involve a mixture of measures such as ensuring complete markets for flexibility services to grid operators and changes to grid tariffs across electricity and gas to better ensure they reflect the costs imposed by players

We look forward to continuing our dialogue with the Commission about development of the strategy. In the meantime, we will also be engaging with other relevant external parties that play a role in the debate on the future integration of Europe's energy system, in particular regulators, TSOs, national governments and industry associations.