



EUROPEAN COMMISSION

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Is delivery of the Internal Energy Market on time?

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Thank you for organising this conference. It is an important topic and there is a need for good discussions.

In general I would like to thank the Council of European Energy Regulators for their good cooperation and for their commitment to the creation of the internal energy market. We have constructive relations and it is my ambition to maintain these relations.

Today, I would like to focus on the **completion of the Internal Energy Market**: first on the **development of wholesale markets and then move on to retail**.

Retail and wholesale markets are mutually dependent: they need each other to work well. Where consumers are allowed to switch supplier, competition on the wholesale market will be spurred on as consumers demand the best deal. Where the wholesale markets offer opportunities, new entrants go look for clients on the retail level.

A well-integrated and functioning internal energy market is the fundament on which our security of supply is built, and it is the foundation for the cost-effective transformation of the energy system towards more sustainability.

Where markets work and where they are well-connected, little space remains to use energy as a political tool. The crisis in Ukraine shows again the value of an integrated energy market:

- The countries most at risk are those that are isolated. Looking to gas, we have a European map with 4 Member States getting no gas from Russia, 18 Member States that get between 10 and 80% from Russia, and 6 Member States that are importing from just 1 supplier, 1 source, via 1 route, namely Finland, Estonia, Latvia, Lithuania, Slovakia and Bulgaria.
- Ukraine sees a lot gas to Europe flowing by, but it cannot access it because its contracts are not in line with the EU internal energy market rules;
- Countries with energy monopolies are countries where little investment in new infrastructure has taken place. The more monopole, the less investment, is our analysis. They can hardly be surprised: who is going to invest in new infrastructure to allow new sources into the market? Certainly not the incumbent. That is why unbundling is so important.
- And if in such markets, the prices are regulated below cost, without any prospect for improvement of the market circumstances, who is going to invest in new infrastructure? Nobody. And I would not like the EU to support infrastructure in such cases. I'd like our CEF- money to be well spent!
- So we are in a sensitive time, looking at PCI's, at CEF, and coming to a decision on when and how support funds should be spent to invest in infrastructure;
- Where prices react to supply and demand, at times of trouble the market will look for the cheapest way of dealing with scarcity. Regulated prices for gas provide no

incentives to any consumer to behave smartly and in solidarity when there is trouble;

- The same goes for electricity: regulated prices provide no incentives for consumers to adapt their consumption. When we want to increase the share of renewables we need much more consumer flexibility. Unless we want to pay buckloads of money to subsidise gas-fired power plants to stay on stand-by.
- Unfortunately it seems that some Member States do want to do that: regulate prices and support back-up capacity. I said and I will continue to say that this is not a good idea: we need to look at cheaper alternatives such as making demand more flexible, and we need to take measures at a regional and European level. We don't need 28 fragmented back-up mechanisms. National mechanisms to support back-up capacity are costly, and the consumer will lose, and our industry as well.

In January 2014, the Commission published a **Report on 'Energy prices and costs in Europe'**. It established that wholesale prices for electricity have been well kept in check while retail energy prices in Europe rose significantly. It's not generation, it's mostly transport, taxes and levies.

We know that taxes and levies represent a big and sometimes increasing part of the retail energy bills, which can have a great impact on affordability for consumers. They diverge substantially between Member States.

This is not exactly what we had in mind when we are thinking of an internal market!

The winner is the finance Minister, not the consumer, or the energy market. So we should be transparent about the reasons of cost increases.

Of course the cost structure of the market changes when more and more electricity generation depends on technologies with low operational costs and high capital costs, and when we need more and more networks to connect these different types of generation,

But that is only a reason to ensure that these capital-intensive investments are done at the lowest cost possible! And it's clear that the Member States' borders don't define the lowest cost: we need investment signals for the whole EU, driven by an integrated market. We don't need national investment decisions driven by government interference in the market.

And when we agree that we **do** need it, for example for Renewables to meet the 2020 targets and beyond, we need to work towards a European framework, towards market integration of renewables, and to cross-border support schemes.

In short: we need more coordination of national energy policies. I know this is something close to the heart of any government, and it should be. But it's also close to the heart of European energy consumers, and they are the ones who pick up the bill!

Ensuring energy supplies, transforming the European energy system to a more sustainable system that emits less CO₂, while keeping the cost of energy competitive for industry and affordable for citizens, can only be done in an internal market.

Ladies and Gentlemen,

Security of electricity supply is becoming an increasing challenge.

In electricity, maintaining the same level of grid stability becomes a bigger challenge as increasing shares of variable renewables enter the energy mix, and local energy storage becomes a possibility. Europe's electricity transmission grids need to be both more flexible and better connected to each other and operators need to cooperate more closely to keep the system balanced throughout the day.

A bigger connected area will enable variability of renewable sources to be better counterbalanced and should reduce the need for investment in capacity.

End of May, the Commission presented a comprehensive Energy Security Strategy with a series of detailed proposals. A first discussion took place during the last Energy Council on 13th of June. There is now a consensus that more needs to be done, both at national and at European level, in order to cope with new energy security challenges, notably to better protect certain regions of Europe that are most exposed.

The Union's energy security is inseparable from our climate and energy policy framework and fits fully in the 2030 policy discussion. It is not a separate policy stream. Together with competitiveness and sustainability, it is at the very core of our EU energy policy. Ultimately, the transition to a competitive, low-carbon economy is the only possibility we have to reduce energy import dependency.

Clearly, we need to act now in view of securing supplies this winter. Existing European emergency and solidarity mechanisms will be reinforced. We will launch a series of Energy Security Stress Tests, starting with the most exposed parts of Europe. The Union will also engage with its international partners to develop new solidarity mechanisms for natural gas and the use of gas storage facilities – we have the intention to cooperate notably with the IEA and bearing in mind the G7 orientations on these matters.

A key point of our energy security policy is that Europe needs to achieve a better functioning and a more integrated energy market.

What is most needed has not changed since the adoption of the Third Energy Package in 2009:

- building the necessary interconnections: they are key;
- agreeing together on market rules in order to create the level playing field necessary for market participants to trust that they can compete on an equal footing throughout the EU,
- guaranteeing non-discriminatory access to independently operated infrastructure, not only for transmission grids, but also for distribution networks, gas storages and LNG terminals; and
- enabling industrial and domestic consumers to actively contribute to and profit from functioning retail markets by being flexible in their consumption patterns and participating in micro- and self-generation of renewable energy.

In electricity, completing the internal market means first and foremost enabling the market to deliver reliable price signals for efficient production and investment decisions. On the wholesale side this requires putting in place short run and forward market arrangements.

The tools to implement these arrangements are the **Network Codes** being developed under the Third package. These need to be ambitious, clear and adopted as a matter of priority.

In gas markets, we have made considerable progress in tackling congestion on pipelines and by setting up liquid hubs producing reliable price signals and fostering competition. Greater flexibility has been achieved also through reverse flows. But more can be gained by introducing more market-based balancing mechanisms and increased interconnection capacity. Especially in the Eastern and South-Eastern parts of the Union, the sector remains isolated or dominated by a single supplier. Diversification of routes, of sources and of suppliers through investment in infrastructure should remain our priority.

Let me now turn from wholesale to the retail.

On the retail side the markets are in transformation, an accelerating transformation: While the European energy legislation has brought in choice, competition, protection and transparency, the engineers have developed new tools and technologies for producing, transporting, measuring, storing and managing energy.

In some countries, many consumers are covering their energy needs (heating and electricity) through micro-generation and selling surplus electricity to the grid.

As we have seen, the current level of implementation of **Third Energy Package** provisions has not yet resulted in well-functioning retail markets across the EU. More is needed to reach levels of competition in every Member State so consumers have genuine choice and can switch to the most beneficial contracts.

We need to create a market where companies will bring innovation in energy supply: they should supply energy services! This should result in lower end-user bills as customers shop around for the best deals and services. Consumers should not be bothered by difficult bills and supply choices, but they should choose to be interested in analysing different interesting offers!

At the same time we need to ensure that the vulnerable people among the consumers are well protected. They also need the information and the assistance to make informed choices. Just providing them with a regulated price is not what I consider helping them out: it is more like telling them to sit down and be quiet.

The increasing complexity is however something companies should be able to deal with: it creates opportunities! The telephone market was a lot simpler 30 years ago – but I hear very few people complaining about their telephone bills.

It creates also new opportunities for the manufacturing industry: smart appliances, like washing machines, heat pumps, storage, intelligent lighting systems, this is all equipment where huge innovations are taking place – in a sector where the EU is traditionally very strong. We are an exporting continent.

We need to make sure that we stay strong, and create the right framework for technological innovation, for example by setting interoperable and open standards.

Let me say quite frankly that some candidates in the elections for the European Parliament had such populist positions. We need eco-design. We need common goals and priorities for a policy for energy efficiency for products. We need 1 standard, 1 goal.

The industry is in favour of eco-design, and they want to have 1 standard for products. If we have 1 EU standard, we can set the global standard, that will be respected from Los Angeles to Shanghai. Nobody in the world will be interested in taking over 28 different standards.

To ensure that a new market emerges, where innovative companies provide services that consumers are interested in, we need to take a thorough look at the way the retail market is organised.

And when we do that, our aim should be to ensure that the consumers can benefit from all the new technologies that are available: smart meters, solar panels for their roofs, smart appliances, and probably smart-phone apps as well!

Flexible is the key word here: we need flexible distribution system operators who can ensure that all producers and energy service companies, big and small, have access to the grid through micro- and self-generation. **Demand side** should be treated on par with supply side.

And distribution system operators should not have the final word on who has access to consumption data. With consumers' agreement, these data should be available to the

companies working on their behalf to optimise energy consumption or production. Of course, these data need to be protected at all times to maintain the confidence of the consumers.

It could be the traditional energy suppliers that transform themselves that do this, and I hear good signals about that: the big utilities are reconsidering their role and realise that the future is in energy services.

It could also be new companies that specialise in particular services: so-called aggregators, but also the installers of electricity in houses, or sellers of electric vehicles.

When it comes to the network operation itself, efficiency and cost reflective grid tariffs, that incentivise smart and efficient use of energy are key.

- Efficiency not least because of the investments needed in them account for roughly a third of the energy bills on average.
- Cost reflective to maintain healthy DSOs as well as open doors for new entrants to the market. As I said before: the energy system becomes more capital-intensive, so we need to make sure that the investments are done in a cost-effective way. This is particularly important for the distribution network where we will see huge investments in the coming years.
- Finally, the charges need to reward smart and efficient solutions in line with our common energy policy goals – not against them.

Finally, it is clear that this should lead to a much more efficient energy market: consumers will know much better where, when and how they can save energy. And they will want to know because they can earn money with it. In my view, a competitive and innovative retail market is one of the cornerstones of the energy efficiency policy.

But it is not enough: renovation of houses, public buildings, better isolation etcetera will need a big push from governments to be done at the speed we want it, but it is key that we create a market where such investments are worth it. This is a very important topic for me, and as you know I plan to come with a report on the energy efficiency policy very soon, before the end of July.

So much of the legislation is in place and has to be fully and correctly implemented. However, also further direction is needed. And I want to take set the framework for a high-quality discussion on the next steps through the Communications foreseen for this autumn.

However, we depend as always on strong cooperation between all stakeholders to ensure the internal energy market develops as it should, in the consumers' best interest. So I am delighted to see such a wide range of participants here today to discuss this very issue, and I wish you all a fruitful afternoon. Let's hold contact: we have a common and interesting agenda.