

Regulators' view on the European Commission Green Paper

‘Delivering 2020 targets cost-effectively’

- And implications for 2030

EU SEW – 25 June 2013

Structure of presentation

- Introduction
- Key points in CEER response to 2030 Green Paper:
 - Optimal regulatory design benefits from clarity over energy sector goals
 - Reaffirming the importance of achieving rapid implementation of the 3rd Package
 - Delivering investment and consumer protection requires a stable market-based framework, implying structural reform of EU ETS
 - Importance of 'total system' functionality
 - Importance of (intelligent) networks
 - Coherence as a key principle in formulating 2030 arrangements
- Close

Introduction – CEER’s response to the EU 2030 Green Paper

CEER welcomes the opportunity to comment on the EU Commission Green Paper “A 2030 Framework for Climate and Energy Policies”.

CEER and NRAs are best placed to respond to the consultation questions relating to issues of:

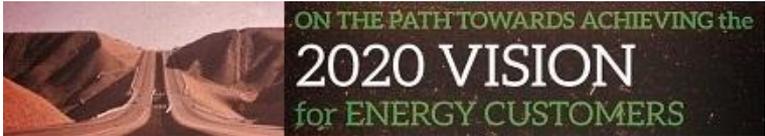
- energy security
- market development
- cost-efficiency
- regulatory certainty
- financing arrangements.

The CEER response focuses on 6 key strategic points of relevance to regulatory activities.

Optimal regulatory design benefits from clarity over energy sector goals

- NRAs are tasked with making decisions against often conflicting objectives (e.g. long term vs. short term).
- Future system is expected to contain increasing proportion of low marginal cost and intermittent plant.
- In order to design the optimal regulatory and market arrangements, NRAs would benefit from greater clarity on energy sector goals, e.g. one or more of:
 - Contribution expected from electricity, particularly from renewables
 - Carbon intensity of electricity
 - Energy sector emissions reduction targets.

Reaffirming the importance of achieving rapid implementation of the 3rd Package

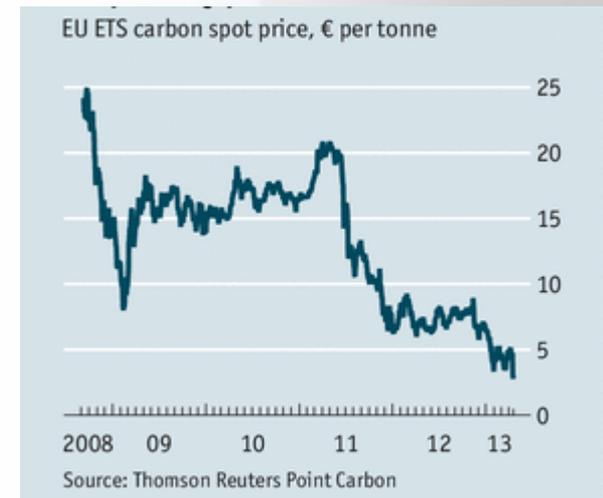
- Achieving the IEM/Target Models will bring:
 - Clear short term benefits to consumers
 - Efficient cross-border RES integration in the long term.
- CEER's vision for the IEM includes:A graphic with a dark background and a landscape image of a valley with a river. The text 'ON THE PATH TOWARDS ACHIEVING the 2020 VISION for ENERGY CUSTOMERS' is overlaid in white and green.
 - effective competition, security of supply, liquidity, interconnected markets, real price signals, affordable prices, minimised market distortions and active, empowered consumers.
- Important that emphasis is not diverted from achieving the IEM benefits, as they can help to deliver the 2030 objectives.

Delivering investment and consumer protection (1)

- Although climate and energy policy is the remit of MS governments and the EU, NRAs have a clear role in:
 - advising on potential (unintended) effects
 - commenting on implementation mechanisms
 - championing consumer interests.
- **Energy efficiency** can minimise consumer exposure to the costs associated with a 2030 framework.
- **Renewable energy** has complex effects – substantially greater investment costs, but reduces consumer exposure to fossil fuel price volatility and can induce periods of very low electricity prices. Net effects depend on policy & regulatory design, and degree of investor confidence from 2030 package.
- **Targeted RES support** can facilitate technological developments (and hence cost-efficiencies).

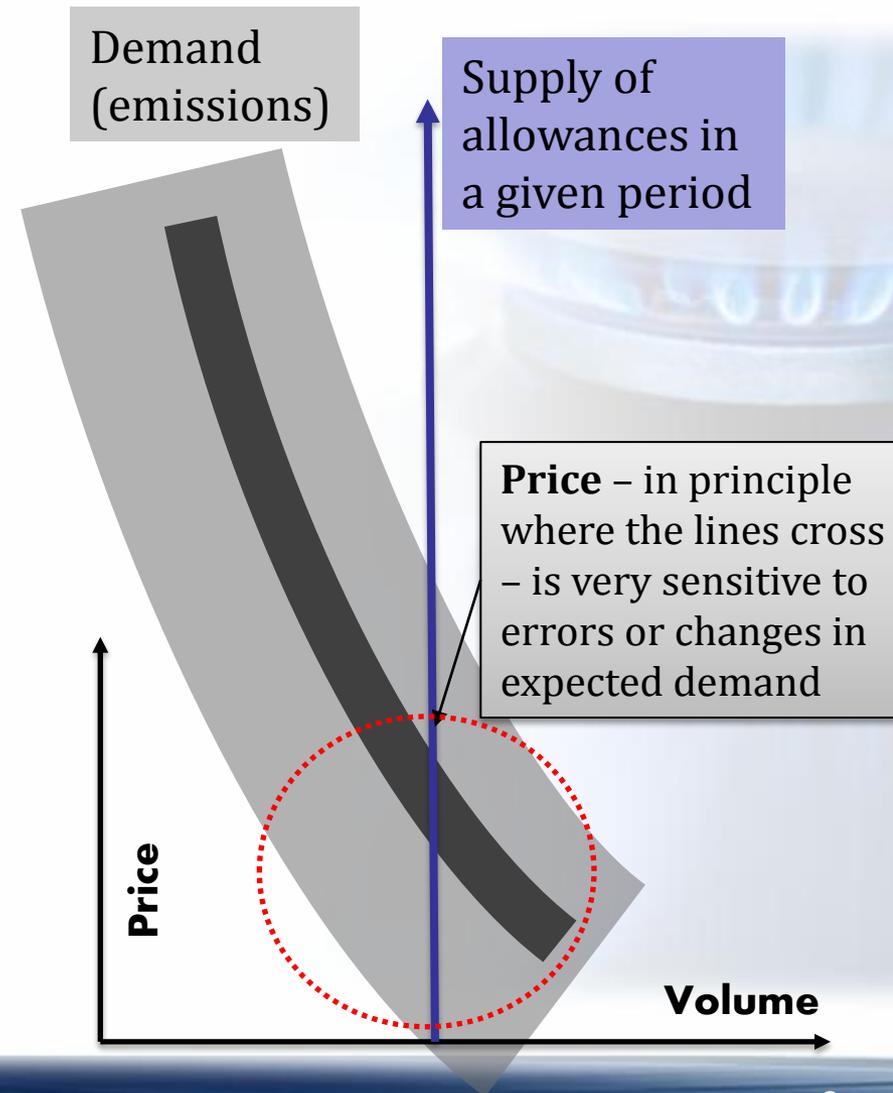
Delivering investment and consumer protection (2)

- A stable policy framework to 2030 will assist more efficient investment.
- A carbon price is a key element of a market-based framework, but current ETS design is undermining efficient investment.
- Measures to increase the price stability and price confidence of the EU ETS would enhance the effectiveness of this instrument.



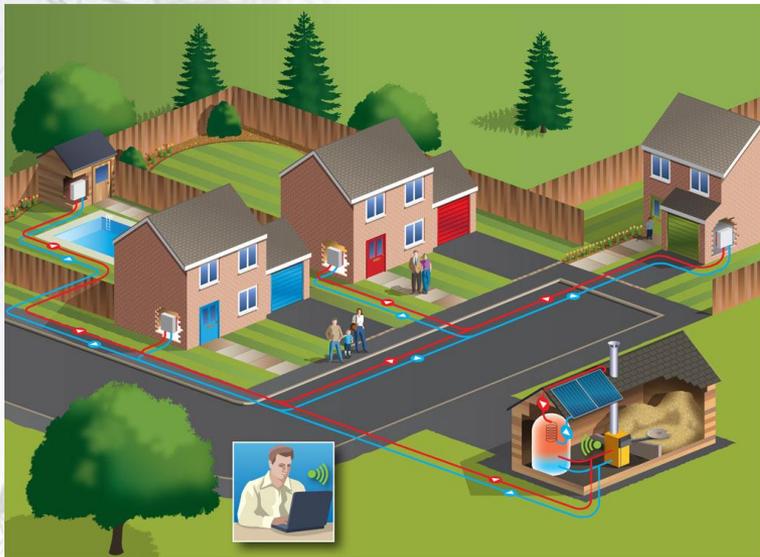
ETS volatility caused by fixed supply with steep demand curve

- Multiple targets can make the demand curve even steeper – more sensitive – as has happened in 2020 targets
- ETS structural reform could help to stabilise the system if it addresses the problem of fixed supply
- Various options could help supply respond to the price (as in other markets)



Importance of 'total system' functionality

- This process provides an opportunity to link together **heat, energy efficiency** and energy **demand-side flexibility** in terms of the whole system functioning effectively.



Source: FairEnergy

- Balancing and integrating existing capacity alongside newer forms of generation, storage and heat will require **smart grid** type arrangements.

Importance of (intelligent) networks

- Green Paper places insufficient emphasis on the role of gas and electricity networks in supporting 2030 ambitions.
- Despite initial cost, **investment in infrastructure and intelligent networks** offer significant benefits to society.
- Significant investments in new and intelligent energy infrastructure are needed to secure the uninterrupted, affordable supply.
- The Commission could play a key role in supporting **standardisation** to help deliver affordable intelligent networks.

Coherence as a key principle in formulating 2030 arrangements

- Wide range of related policies and implementation frameworks have emerged under 20:20:20 Package.
- For new climate and energy policies for 2030, the interaction effects of existing and proposed policies must be factored into their design.
- This should extend to comprehensive Impact Assessment being undertaken.
- This should look across all sectors (recognising need for differentiation) – not just energy – to ensure that efforts are spread fairly and efficiency

Closing remarks

- Key issues of importance for energy regulators:
 - Clarity on energy goals and implication for proportions of RES within the energy system (and associated support schemes)
 - effective and timely implementation of the IEM
 - stabilised ETS to facilitate efficient market-based generation investment
 - expanding horizons to look at total energy system functionality
 - investments in critical energy infrastructure to also maintain security of supply
 - Coherence of policies, to facilitate affordable and competitive pricing.
- Highlight the central importance and relationship of a (well) functioning carbon market to an effective energy market and to continued investment confidence.
- Since the original 20:20:20 Package, the economy and energy market have fundamentally altered – important to revisit arrangements.

Thank you for your attention!

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