

# **CEER Response to the European Commission Green Paper “A 2030 Framework for Climate and Energy Policies”**

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## INTRODUCTION

The Council of European Energy Regulators (CEER) welcomes the opportunity to comment on the European Commission Green Paper “A 2030 Framework for Climate and Energy Policies” with its principal aims of:

- (i) Maintaining investment confidence in energy and climate policies beyond the 2020 time-horizon;
- (ii) Securing the employment, economic growth and innovation benefits associated with long term policy stability/clarity;
- (iii) Clarifying its level of ambition and internal position ahead of legally binding climate negotiations in 2015.

As the representative body for Europe’s energy regulators, CEER is best placed to respond to the consultation questions relating to issues of 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 response focuses on 6 key strategic points of relevance to regulatory activities:

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

In addition, the CEER response includes an annex providing more detailed responses to 11 of the 22 consultation questions in the Green Paper. These have been grouped according to thematic areas as listed below:

| Thematic area                           | Consultation questions   |
|---|--|
| <b>High level framework and context</b> | <b>CondocQ1.</b> <i>Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?</i>   |
|   | <b>CondocQ2.</b> <i>Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply, and to what extent should they be legally binding?</i> |
|   | <b>CondocQ3.</b> <i>Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?</i>   |
|   | <b>CondocQ5.</b> <i>How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?</i>   |
|   | <b>CondocQ6.</b> <i>How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?</i>                                      |
|   | <b>CondocQ14.</b> <i>What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?</i>  |

| Thematic area          | Consultation questions  |
|------------------------|---|
| Internal energy market | <b>CondocQ9.</b> <i>How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?</i>  |
|                        | <b>CondocQ19.</b> <i>How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?</i> |
| Instruments            | <b>CondocQ7.</b> <i>Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?</i>   |
|                        | <b>CondocQ22.</b> <i>Are new financing instruments or arrangements required to support the new 2030 framework?</i>  |
| Regulatory role        | <b>CondocQ16.</b> <i>How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?</i>  |

## 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.

CEER acknowledges the need for urgent action to deliver pan-European emission reductions, and the importance of EU leadership internationally in this area. There are considerable (and diverse) 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 consumers’ bills, particularly when the associated infrastructure implications of future climate and energy policies are taken into account.

Greater levels of investment generally imply more costs and higher prices, so it is 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 calls for consumer interests to be a key consideration during the formulation of future EU climate and energy policies.**

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.***

Consideration of these four principles represents a horizontal theme throughout all of our work, and is embedded in our responses to the Green Paper consultation questions.

## KEY STRATEGIC POINTS

The Council of European Energy Regulators (CEER) welcomes the opportunity to comment on the European Commission’s Green Paper “A 2030 Framework for Climate and Energy Policies”.

This consultation, alongside the recent strategic debates by the European Council, raises key issues of importance for energy regulators, particularly around the relative proportions of renewable energy sources (RES) within the energy system (and associated support schemes), the effective and timely implementation of the internal energy market (IEM), ensuring investments in critical energy infrastructure and the maintenance of security of supply, all of which need to be delivered in an affordable and competitively priced manner.

Although outside of our remit, we are aware of the recent proposals for reform to the EU emissions trading system (ETS) and **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 adoption of the EU’s 20:20:20 Climate and Energy Package, economic circumstances and developments on the world energy market (e.g. emergence of unconventional gas) have fundamentally altered, so it is important to revisit the current set of arrangements and consider how security, climate and affordability goals can continue to be effectively delivered. In this context, we provide the following key strategic points for consideration:

### **1. Optimal regulatory design benefits from clarity over energy sector goals**

Regulators are tasked with making decisions against often conflicting objectives, *in effect balancing long-term benefits against short term impacts*. In order to design the optimal regulatory and market arrangements for a system that it is expected to contain an increasing proportion of very low marginal cost and intermittent plant, greater clarity about the contribution expected from electricity in particular – in the form of renewables, carbon intensity and/or energy sector emissions reduction targets – would offer real value to regulators in establishing effective arrangements up to and beyond 2020.

### **2. Reaffirming the importance of achieving rapid implementation of the 3<sup>rd</sup> Package**

Achieving the European target models for the electricity and gas markets, and the overall completion of the IEM will bring clear benefits to consumers in the short term, as well as allowing efficient cross-border integration of (increasing proportions of) RES over the long term. CEER’s vision for the IEM includes effective competition, security of supply, liquidity, interconnected markets, real price signals, affordable prices, minimised market distortions and active, empowered consumers. It is extremely important that emphasis is not diverted from achieving the IEM benefits, as they will help deliver the longer term 2030 objectives.

### **3. Delivering investment and consumer protection**

Whilst it is for Member State governments and the EU to set policy objectives and priorities for climate and energy policy, regulators have a clear role in advising on potential (and unintended) effects, commenting on the structure of implementation mechanisms and in championing consumer interests, in line with the CEER-BEUC 2020 Vision for Energy Consumers. Energy efficiency in particular offers a clear means of minimising consumer exposure to the costs associated with a 2030 framework. Renewable energy can reduce consumer exposure to fossil fuel price trends and targeted support can facilitate technological developments which provide cost-effective solutions in the longer term.

A stable policy framework to 2030 will assist more efficient investment and hence reduce costs to consumers. A carbon price is a key element of a market-based framework for achieving this, but the instability of the current ETS design – arising from a fixed supply in the face of a steep demand curve – undermines this goal. The effectiveness of the EU ETS in fostering more efficient and market-based investment would be greatly enhanced by measures to increase its price stability, and price confidence, in the face of unexpected variations and the impact of other instruments.

#### **4. Importance of ‘total system’ functionality**

In addition to complementary, well-functioning markets, the 2030 Green paper process also provides an opportunity to link together **heat (CHP and district heating), energy efficiency (EE) and energy demand-side flexibility** in terms of the whole system functioning effectively. Balancing and integrating existing capacity alongside newer forms of energy generation, storage and heat will require smart grid type arrangements.

#### **5. Importance of (intelligent) networks**

CEER believes that the 2030 Green Paper consultation places insufficient emphasis on the role of gas and electricity networks (and the role of TSOs and DSOs) in supporting 2030 ambitions. Whilst investment in infrastructure and intelligent networks represent an initial cost, the flexibility, resilience and potential to engage consumers they offer will deliver significant benefits to society.

Significant investments in new and intelligent energy infrastructure are needed to secure the uninterrupted supply of energy at affordable prices. The Commission could also play a key role in supporting standardisation (across infrastructure, networks and devices) to help deliver intelligent networks at an affordable cost.

#### **6. Coherence as a key principle in formulating 2030 arrangements**

Since the 20:20:20 Climate Package was agreed, a wide range of related policies and implementation frameworks have emerged, including (but not limited to) the 3<sup>rd</sup> Package, the revised Guidelines on trans-European energy infrastructure, the Strategic Energy Technology Plan and the Eco-Design Directive, etc. In formulating any new climate and energy policies for 2030, it is important that the interaction effects of these existing policies – and those addressing sectors other than energy - be factored into future policy design in order to achieve overall climate policy coherence. This should extend to comprehensive impact assessments (incorporating cost-benefit analysis) being undertaken on emerging policy options.

## HIGH LEVEL FRAMEWORK AND CONTEXT

1. (Condoc question 1) - Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

The 2020 framework was originally conceived and designed during a period of high GDP growth, in order to support the emergence of a low-carbon economy within Europe and provide an ambitious vision to influence other developed and developing nations.

The additional costs associated with meeting the 20:20:20 targets were felt to be balanced by advantageous energy supply conditions at the time, and the framework was considered politically sustainable at both the EU and Member State level on the basis that the principle of subsidiarity would allow Member States to select the most cost-effective, optimal solution for their national circumstances.

Energy market developments at the time (such as the introduction of the 3<sup>rd</sup> Package) were also envisaged as complementary to increased RES production.

In contrast to these assumptions, however, the contemporary situation has fundamentally changed. The European economy is struggling to return to growth, and is dependent on exports serving external demand to a higher degree than under normal conditions.

Leadership in international climate policy has also lessened, with the USA, China and other regions either taking different paths or giving low priority to climate policy<sup>1</sup>.

Against this changed backdrop, CEER feels it is important to highlight the following lessons:

- **Targets interact, with positive and negative consequences** – Any future target setting should receive a much fuller analysis<sup>2</sup> of the interaction effects between targets, including the redistributive effects on industrial and residential consumers. Currently, the EU ETS design is insufficiently stable to provide a basis for low carbon investment, and the introduction of multiple targets may exacerbate this.
- One of the most important lessons is that an over-emphasis on a small number of (relatively) expensive technologies risks general support for RES amongst Member States. **It is therefore important within the formulation of any new targets that ‘least cost’ measures are prioritised, and sectors with a significant role to play (such as heating and cooling) are included in any future arrangements.** Support intended to facilitate technological development should be explicitly identified and targeted on research, development and deployment rather than on output volumes, so as to help bring forward technologies that are ‘high cost’ now but which may represent the ‘least cost’ option in the future.

<sup>1</sup> Although this may shift in the lead up to international climate negotiations in 2015

<sup>2</sup>For example, the Commission’s 2008 climate package Impact Assessment (IA) simply noted “GHG policies alone will not meet the RES targets” and “Putting a renewables policy in place lowers the carbon price necessary to deliver the GHG reduction commitment.”

- It will be important that any future RES support is designed carefully so as to minimise the impact on consumers’ energy bills (both residential and industrial, present and future), while ensuring “cost-effectiveness, further market integration and grid stability and building on the experience in some Member States which have heavily invested in renewable energy technologies.”<sup>3</sup>
- CEER research<sup>4</sup> into the most important lessons for RES support scheme design has revealed that **stability and level of support matter more to stakeholders than the type of support**; but some convergence of national policies would be desirable (recognising that even if type of support was not seen as significant, it could be important for the system and have impacts on consumers). CEER explicitly welcomes the Commission’s intention to publish Guidance on RES support and has been pleased to contribute the regulatory perspective to the Commission’s preparatory work on this issue.
- While bringing RES closer to the market through reducing support for mature technologies, it will be important to retain the potential benefit of RES in reducing consumers’ exposure to fossil fuel price trends. Hence, any support schemes for RES should ensure that the total revenues paid to RES are not artificially linked to fossil fuel prices (such as through a simple wholesale price premium model in systems where the wholesale price is driven by fossil fuel prices).

2. (Condoc question 2) - Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?

This question falls outside the competencies of CEER’s members. However, certain aspects directly affect regulatory arrangements and observations are offered on this basis:

Whatever approach is decided upon for targets to 2030, the underlying analysis should be informed by sound economic principles, such as consistency and coherency of targets, cost-efficiency and minimal market distortion. In addition, any support offered to energy technologies should be well targeted (e.g. at immature technologies with high potential) and follow a degeneration pathway to ensure support is phased out as technologies become mature.

Implementation of sectoral sub-targets should be made at Member State level, taking into account the economic and financial reality of each country. Although sectoral target setting is outside of our remit, uncertainty in relation to the proportions of RES-E on the system has significant planning (and cost) implications for regulators in managing system balancing and financial arrangements. Similarly, a single greenhouse gas (GHG) target does not assist with forward planning / network coordination.

<sup>3</sup> [Conclusions](#) of the European Council (p4, 22 May 2013)

<sup>4</sup> [CEER Conclusions Paper](#) C12-SDE-25-04b: *Implications of Non-Harmonised Renewable Support Schemes*



3. (Condoc question 3) - Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

As originally conceived, the 2020 RES targets served multiple purposes: reducing GHG emissions; encouraging a diversification away from reliance on fossil fuels (with domestic production in decline); and the development of new technology and European industrial capacity necessary to deliver on-going emission reductions. At a European level, the co-existence of market based mechanisms such as the EU Emissions Trading System (EU ETS) and state-directed RES and energy efficiency targets thus served multiple objectives towards the ultimate goal of limiting GHG emissions.

However, since the 20:20:20 Climate and Energy Package was agreed, the economic and strategic energy outlook (e.g. the emergence of shale gas and other unconventional fossil fuels) has altered considerably. Though impacts on European production have yet to be established, this may make the fossil-fuel diversification component of the original RES targets less economically attractive. Also, some renewables industries will be much better established through delivering the 2020 objective, which as we indicate under Condoc Q16 may reduce the case for technology-specific market supports for these technologies whilst the generic case for benefits from renewable energy remains.

This situation raises the question over whether further RES targets are needed, and if so, greater clarity about the rationale and role these targets are expected to play in the European energy system in relation to other measures (e.g. CCS, energy efficiency).

A market-based approach which attaches prices to the scarce resource, i.e. GHG emissions via ETS, is in principle able to deliver an efficient, least-cost way of meeting a specific emissions target in a given period. The current depressed level of the CO<sub>2</sub> price, however, reduces the current effectiveness of this mechanism, particularly in relation to investment.

The co-existence of market intervention measures in RES and energy efficiency further decreases CO<sub>2</sub> prices beyond the level due to low actual economic activity in Europe. The impact of renewable energy targets was considered at the time of adopting the 2020 package, and the actual emission savings attributable to RES may not differ greatly from that projected at the time.<sup>5</sup> In part, the 2020 package was adopted in the hope of moving to a 30% GHG reduction. However, the underlying point is that component targets which bear upon emissions covered by the ETS *increase further sensitivity of the carbon price to any other developments*. If multiple targets are maintained, it thus increases further the need to stabilise the ETS system.

Building on the earlier point about targets interacting, any future arrangements will have to take into account **existing and parallel policies** (e.g. Energy Efficiency Directive) in

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<sup>5</sup> Felix Matthes of the Öko-Institut on "Strengthening the EU ETS and raising climate ambition" suggests that the expectations under the Commission's IA in 2008 for RES growth were matched by MS NREAPs which are overall still expected to be delivered: "The result of the analysis (carried out by Öko-Institut) underlines that the projections submitted by the EU Member States in their NREAPs represent in total a level of CO<sub>2</sub> emission abatement which only differs slightly (approx. 40 Mt CO<sub>2</sub> or 5 % in 2020) from the assumptions for the 2008 modelling exercise conducted for the integrated energy and climate package, which was also the basis for the cap setting within the EU ETS from 2013 onwards." (29-30).

determining the **level and approach taken to future emissions reductions**. This extends to interactions between targets and policies operating **within** the energy market (e.g. renewables targets) and those targets and policies operating **within and in parallel to** the energy market (e.g. wider GHG emissions reductions). The objectives of these existing policies will need to be factored into any structural reforms to the EU ETS.

Coherence of actors/responsibilities is also an important consideration in any future arrangements – for example, regulators have a clear role in the implementation of energy policies (e.g. achievement of the IEM target models) but a less defined role in relation to implementation of climate related objectives.

4. (Condoc question 5) - How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

In principle, CEER supports the market direction and regulatory certainty afforded by targets – However, **these targets should continue to be framed in general terms across different technology options**, allowing Member States to adapt national support schemes (as opposed to targets) to changing circumstances and technological developments.

This ‘technology neutral’ approach also allows for RES decisions to be made on a cost-effectiveness basis (which allows ‘least cost’ judgements on the location of RES to be balanced with the resulting infrastructure needs).

CEER supports the closer integration of renewables into the market over time, with the phasing out of support as technologies become mature and competitive. To this end, CEER has encouraged the Commission to consider ‘regional harmonisation’ pilots<sup>6</sup> as a gradual move towards greater harmonisation of national support schemes within the IEM.

Particularly in the absence of a well-functioning carbon market, we see a continued role for well designed (non-distortionary) and cost-effective RES support schemes in providing regulatory and investor certainty. Whilst these should always contain mechanisms to allow for technological innovations to be reflected in the support value (and over time should be integrated within the market), support for RES after 2020 may continue to have an important role for the reasons indicated, including:

- Security of supply (SoS) benefits, particularly in relation to reducing dependence on gas imports, although these benefits have to be balanced against the SoS impacts of RES variability and low marginal costs, which can prompt Member States to consider new arrangements to ensure resource adequacy (such as capacity mechanism interventions);
- Diversity of energy supply may help in insulating consumers against fossil fuel price uncertainty and volatility;

In addition, for renewables and also in relation to coal capture and storage (CCS):

- Continued cost reduction through learning-by-doing and supply chain development , in combination with targeted support (e.g. R&D grants as opposed to volume-related

<sup>6</sup> CEER Conclusions Paper C12-SDE-25-04b: *Implications of Non-Harmonised Renewable Support Schemes*

support) can help unlock the potential of immature/novel technologies, helping bring them closer to market.

*5. (Condoc question 6) - How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?*

In addition to investments and infrastructure, market design and market functioning need continuous monitoring to gauge if the framework and policies in place are resulting in fair competition. The importance of market integrity and transparency should not be overlooked; REMIT and wholesale market monitoring are a central aspect of EU energy markets going forward.

The 3<sup>rd</sup> Package allocates Security of Supply (SoS) monitoring in terms of adequacy to ENTSO-E for electricity and ENTSOG for gas. However, there is evidence that a monitoring role alone may not be sufficient and in these areas a co-ordination mechanism may be required, possibly based upon a common methodology<sup>7</sup> for assessing generation adequacy.

Additionally, looking ahead to a ‘smarter’ network with higher proportions of RES, **SoS measures may also need to evolve to capture aspects of regional network integration<sup>8</sup> and effective market functioning** (including demand-side response and storage) rather than a single focus on ‘physical ‘capacity/fuel-stock level’ indicators.

Assessments of general energy market functioning can also be informed by the regular ACER-CEER Market Monitoring report which examines the status of wholesale and retail markets, and the effects of policies on markets.

Alongside climate and SoS, the other major consideration in energy policy – affordability – will be best served by ensuring effective market functioning and consumer protection, if necessary.

However, competition, even if working perfectly, cannot balance all of the additional system costs and taxes which energy consumers (both industrial and residential) have to pay. To ensure these costs are properly considered, CEER recommends initial assessments of the effects of policy measures (e.g. GHG emissions, energy efficiency, increased RES) on prices, bills, and their short and long run volatility, prior to formulation of the 2030 framework, so as to fully analyse the real effects on consumers (industrial and residential).

Other “non-headline” topics should continue to be subject to the principle of subsidiarity, where such national measures would not impede European levels of SoS or impede the attainment of other objectives.

<sup>7</sup> We acknowledge that work on a common methodology is under way in a sub-group of the Commission's Electricity Coordination Group (meets on 17 June 2013).

<sup>8</sup> Particularly given the existing target of achieving interconnection of at least 10% of installed electricity production capacity set by the European Council.

6. (Condoc question 14) - What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?

CEER supports the principles that competition in wholesale markets leads to efficient market outcomes, and that effective retail market competition can efficiently translate competitive wholesale prices to retail customers.

The main deficiencies at the wholesale level include the strategic volatility of international gas pricing vs. the potential short-run volatility arising from increasing proportions of intermittent sources, a lack of infrastructure capacity, inefficient use of existing capacity and a lack of common rules to allow efficient trade. Furthermore retail markets have not yet, in general, reached a stage where they guarantee effective competition across all Member States. Cross-border integration of retail markets therefore would help in overcoming national structural deficiencies.

Similarly, varying consumption levels, taxation, and subsidy structures drive energy trend differentials across Member States. Viewed at the EU-level, achieving the IEM (a well-functioning, well-connected, transparent and competitive energy market) should help to maintain affordable energy prices whilst supporting the low-carbon transition.

CEER also notes that the European Council has invited the Commission to present an analysis of the composition and drivers of energy prices and costs in Member States before the end of 2013, with a particular focus on the impact on households, SMEs and energy intensive industries, and looking more widely at the EU's competitiveness vis-à-vis its global economic counterparts.

## INTERNAL ENERGY MARKET

7. (Condoc question 9) - How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?

The 3<sup>rd</sup> Package aims to remove barriers to market integration across Europe, and the complementary Energy infrastructure Package (EIP) offers the means of mobilising financial investments in support of critical energy infrastructure projects.

Increasing intermittency, rising energy demand and affordability concerns highlight the urgent need to manage more effectively energy flows across the EU. If not managed effectively, there may be a risk of further market fragmentation as Member States seek to serve and protect their national energy needs. **The process of market integration (including short term markets as well as markets for ancillary services) should therefore be prioritised.**

The process of market coupling/splitting has already improved the situation at cross-border interconnectors. However, internal congestions are only exceptionally identified and made transparent in the coupling process. Flow-based capacity calculation has the aim to overcome these deficiencies on a regional basis and has therefore the potential benefit to inform better the market on existing congestions.

A coherent, specific and evidence based 2030 framework, supported in implementation via complementary programmes (e.g. EIP, PCI), processes (e.g. TYNDP) and practitioners (e.g. ACER, NRAs) should help to realise the benefits of the IEM (e.g. effective competition, security of supply, liquidity, interconnected markets, real price signals, fair prices, minimising market distortions) and resist market fragmentation.

*8. (Condoc question 19) - How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?*

**Effective implementation of existing arrangements** would serve to improve security of supply – for example, the Ten Year Network Development Plan (TYNDP) should identify all necessary interconnections; the 3<sup>rd</sup> Package should ensure liquid energy markets efficiently allocate capital and match supply to demand; the implementation of REMIT by NRAs and ACER should aid transparency and market functioning; and national Security of Supply (SoS) policies should ensure a (manageable) level of diversification.

Although current SoS policies are predominantly established at the Member State level, a coherent process of coordination of national policies may be possible where national policies are discussed as well as coordinated between Member States. Directive 2005/89/EC and Regulation 994/2010/EU provide precedence and procedural mechanisms for such coordination.

## INSTRUMENTS

*9. (Condoc question 7) - Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?*

A number of policy instruments **may require adjustment** in order to align fully with any 2030 climate and energy objectives. These include the Community Guidelines on State Aid for environmental protection (designed when RES penetration/deployment and RES support scheme take-up was relatively small-scale).

Similarly, differences in planning, permitting and consenting procedures between (and within) Member States have delayed several energy infrastructure projects, and new arrangements may need to be considered where large infrastructure projects overlap with protected/designated areas.

Turning to energy specific issues, CEER is keen to highlight:

- The importance of achieving the electricity and gas Target Models in a timely fashion, so as to minimise the need for Member States to explore generation adequacy policy instruments;
- The contribution that increased transparency in wholesale energy markets (e.g. REMIT) will bring in helping to understand the effects/impacts of other policy instruments;

- The importance of cross-border impact assessments to identify and mitigate other policy effects on NRA objectives to promote a competitive, secure and environmentally sustainable IEM;
- Energy consumer interests should be considered and protected during development of other financial/industrial policy instruments (e.g. CEER-BEUC 2020 Vision for Energy Consumers); and
- The cross-cutting contribution of energy efficiency and demand side response to achieving multiple policy objectives.

As indicated, minimising the overall cost impacts by maximising investment efficiency is of paramount concern; a market-based approach implies the need for a carbon price, yet the instability for the current ETS does not deliver this. The prospects for the European economy remain highly uncertain. Adoption of multiple targets, which may be well justified for other reasons, would further exacerbate the sensitivity of the carbon price to other developments. Hence, it is vital to implement mechanisms to help stabilise the carbon price in the face of unexpected developments, including to reduce the risks facing low carbon investors on the one hand, and extreme costs on the other. This implies establishing a mechanism to reduce its volatility and maintain the carbon price within bounds which would enable the ETS to achieve its objectives to provide both efficient delivery of on-going GHG goals, and to support low carbon investment.

*10. (Condoc question 22) - Are new financing instruments or arrangements required to support the new 2030 framework?*

Any new 2030 framework will need to offer **sufficient certainty** to ensure:

- Adequate investment in capital-intensive generation
- Capacity adequacy in the light of rising intermittency
- Viable interconnections and Projects of Common Interest (PCIs) which are fundamental to the better functioning of the IEM
- Investment in energy efficiency and innovation to help bring down energy sector costs

CEER’s view is that specific instruments are most clearly justified in cases of high risk and high (potential) social value arising from investment. The main area(s) where financial instruments will be necessary are in research and development (R&D) funds for development of essential technologies such as those covered under the SET plan..

If the 2030 framework is not specific enough in key areas, markets may respond to the uncertainty with insufficient levels of capital, necessitating mechanisms for de-risking investment. This raises a potential tension between sufficient capital being available and concerns about consumer affordability (current consumers), and the longer term issue of inadequate investment over the period 2013-2020 implying higher costs for future consumers.

## REGULATORY ROLE

*11. (Condoc question 16) – How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)*

In addition to the points made (Q4) relating to the continued role for well designed, non-distortionary and cost effective RES support schemes (in the absence of a well-functioning carbon market), a focus on bringing forward greater levels of interconnection and demand-side response would complement RES support by allowing maximum system flexibility without incurring large scale costs.

Clarity over objectives in the energy sector would help to develop appropriate regulatory frameworks, enhancing regulatory certainty for business. In CEER’s opinion, this also highlights a need for greater clarity over the possible role of / implications for TSOs (and DSOs) in a post-2020 system characterised by greater levels of dispersed RES, energy efficiency, DSR and smart grids.

Europe’s energy regulators look forward to continuing to work with the European Institutions on the issues identified in the Green Paper and in this response, and to helping to achieve an internal energy market which delivers for consumers today and in the future. Through CEER’s annual work programme of internal and public deliverables, as well as our continuous dialogue with the European Commission, we are committed to driving forward Europe’s energy markets based on competitiveness, efficiency and sustainability principles.

## About CEER

The Council of European Energy Regulators (CEER) is the voice of Europe's national regulators of electricity and gas at EU and international level. Through CEER, a not-for-profit association, the national regulators cooperate and exchange best practice.

A key objective of CEER is to facilitate the creation of a single, competitive, efficient and sustainable EU internal energy market that works in the public interest.

CEER works closely with (and supports) the Agency for the Cooperation of Energy Regulators (ACER). ACER, which has its seat in Ljubljana, is an EU Agency with its own staff and resources. CEER, based in Brussels, deals with many complementary (and not overlapping) issues to ACER's work such as international issues, smart grids, sustainability and customer issues.

The work of CEER is structured according to a number of working groups and task forces, composed of staff members of the national energy regulatory authorities, and supported by the CEER Secretariat.