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European Union

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**NOTE**

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| from:    | General Secretariat of the Council  |
| to:      | Delegations   |
| Subject: | Follow-up to the European Council of 26-27 June 2014<br>- Energy security |

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Delegations will find in Annex a draft report, taking into account the discussions in the Energy Working Party on 15 July and written comments from delegations received so far.

This text will be discussed in September. Subsequently, the Presidency will, under its responsibility, sum up these discussions for the consideration of the Informal Energy Ministerial on 6 October, the outcome of which will be reported to the President of the European Council ahead of the October EC.

**Presidency Report on short, medium and long-term measures for energy security**

The 26-27 June 2014 European Council<sup>1</sup> agreed on the strategic agenda of key priorities for the next five years. The pursuit of an Energy Union with a forward looking climate policy is among these priorities.

The European Council also held two strategic debates on energy and climate policy, at its March and June 2014 meetings.

The 20-21 March 2014 European Council<sup>2</sup> called on the Commission to conduct an in-depth study of EU energy security and to present by June 2014 a comprehensive plan for the reduction of EU energy dependence. Following the call by the March European Council, on 28 May the Commission presented a Communication on a European Energy Security Strategy ('EESS')<sup>3</sup> which the June EC welcomed and on which it held a first discussion.

The 26-27 June 2014 European Council supported the immediate implementation of a set of most urgent measures to strengthen Europe's resilience and increase its energy security in the short term, before the winter of 2014/2015. The Commission is currently carrying out the assessments of short-term supply disruption risks together with Member States, regulators, Transmission Systems Operators and operators, as well as with the Energy Community and other partner countries, in order to improve the Union's preparedness<sup>4</sup>.

As part of the preparations for the October European Council meeting, the Council was asked to further analyse other medium to long-term measures to enhance the EU's energy security, based on the EESS.

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<sup>1</sup> See doc. EUCO 79/14.

<sup>2</sup> See doc. EUCO 7/1/14 REV 1.

<sup>3</sup> See doc. 10409/14.

<sup>4</sup> *To be adapted in light of the outcome of the risk assessment.* See Commission Report No. [XX to be issued].

The European Council also agreed that the EESS is closely linked to the 2030 policy framework on climate and energy. This reflects the fact that the transition to a competitive, low-carbon economy will reduce the use of imported fossil fuels by moderating energy demand and by the increased use of renewables and other indigenous safe and sustainable low-carbon technologies.

Useful discussions, supported by valuable contributions, already took place in the first semester on possible lines of actions on Energy security and enabled a broad convergence of views on the measures highlighted by the EC. Furthermore, reflecting the fact that energy security has been one of the aims of the EU energy policy for many years, the Council Reports of December 2013 on the completion of the Internal Energy Market<sup>5</sup> and on the external dimension of the EU energy policy<sup>6</sup>, both drawn up as follow-up to the May 2013 EC, contain many elements that are of high importance to energy security, including priorities for further efforts. Lastly, it should be noted that the G7 Energy Ministerial meeting on 6 May 2014 in Rome evaluated a list of possible measures to enhance energy security at global level.

This report aims to answer the call from the European Council, by providing input to the October 2014 EC meeting. The report is based on extensive input provided by the Commission and Member States. It aims to further refine the measures highlighted by the EC in order to render them operational and, to that effect, proposes a series of short and medium to long-term measures. The listing of measures does not necessarily reflect any priority ordering.

It should be borne in mind that:

- several actions are already under way, including the short-term risk assessments referred to above, the preparatory process for the next Ministerial Council of the Energy Community, as well as implementation of existing legislation, such as the preparation of the second list of Projects of Common Interest ('PCIs');

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<sup>5</sup> See doc. 17755/13.

<sup>6</sup> See doc. 17756/13.

- a well-functioning and fully integrated energy market is a prerequisite for the implementation of many measures aimed at the strengthening the EU energy security; therefore, the timely construction of key interconnectors, the full, effective and consistent implementation of the Third Internal Energy Market Package, as well as of legal, economic and technical measures for effective functioning of regional gas and electricity markets are of the highest urgency;
- the contribution of market-based measures for coping with emergency situations may not be sufficient in certain circumstances; efforts need to be made for identifying market failures and, if possible, apply EU legislation in order to provide rapid and effective solutions. Where this is not possible, non-market based measures can be put in place, as also provided in Regulation (EU) No 994/2010;
- some measures need to be carried out also in the context of the external dimension of the EU energy policy, (e.g. diversification of routes, sources or supplies); indeed, the EU, while continuing to be a reliable trade partner, can take advantage of a coherent and effective external energy policy in order to decrease its own vulnerabilities in case of crises and ensure the availability of alternatives to the existing supplies when emergency situations occur;
- the proposed measures respect Member States' rights as regards national energy choices, and are underpinned by the principle of solidarity, as outlined in article 194 TFEU;
- the choice of measures actually pursued by Member States will have to take due account of national circumstances and energy mixes, and of the economic impact of each measure; therefore, not all measures will be suitable for all Member States.

#### **Short Term Measures (in addition to the risk assessments):**

In the short term, the EU has the following overriding priority: to ensure that the best possible preparation and planning improves resilience to sudden disruptions in energy supplies, in particular during the coming winter, and that the most vulnerable Member States are collectively supported, if necessary.

Therefore the following short term measures are important:

1. reach the 3 December 2014 deadline, as required by Regulation 994/2010 on the security of gas supply, by which Member States must be able to meet peak demand even in the event of a disruption of the single largest infrastructure asset. In addition, reverse flows must function on all cross border interconnections between Member States;

2. continue the work of the Gas Coordination Group, which has proven to be an effective EU-wide platform to exchange information and coordinate action, also taking into account the conclusions drawn by the Commission in its report to the Council and the European Parliament on the implementation of the Regulation on security of gas supply and on the overall consistency of Member States emergency measures<sup>7</sup>. Experience so far has shown that there is room for further developing cooperation across borders within the EU and with the Energy Community. In particular, considering the speed at which decisions need to be taken and implemented in case of emergency, the development of regional emergency plans<sup>8</sup>, as foreseen under Regulation 994/2010, should be further supported and encouraged, in order to ease the coordination of Member States' action in case of emergency situation or disruption. In particular, regional cooperation requires a better sharing of relevant information among Member States, such as, *inter alia*, the level of peak gas demand and supply;
3. develop arrangements for coordinated better use of existing regasification and storage capacities in the gas system in emergency regimes, including through coordinated emergency regimes, when the normal functioning of the market does not lead to the optimal use of those facilities, meanwhile making efforts for avoiding unnecessary market distortions; in this context, promote more detailed information with regard of the level of gas injection in the gas storages in EU Member States and in the Energy Community contracting parties;
4. develop coordinated procedures and simplified regimes for the allocation of virtual reverse flow capacity for its usage in not neighboring Member States, taking into account existing and contractual capacities at the interconnection points among Member States;
5. swiftly implement 'TEN-E' Regulation 347/2013 on guidelines for trans-European energy infrastructure, which will play an important role in relation to *inter alia* the 2015 target of ending the energy isolation of individual Member States;

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<sup>7</sup> Note for the delegations: in accordance with Art. 14 of Reg. 994/2010, this report shall be provided by the Commission by December 2014.

<sup>8</sup> For instance, CZ-SK-HU regional emergency plan, as well as EE-LT-LV regional emergency plan under preparation, *inter alia*.

6. harmonise the main rules for electricity and gas trade and transmission grid operation, through the urgent and thorough development and implementation of electricity and gas network codes, also to improve the operation of a network with enhanced interconnection. The urgency of this task requires the utmost efforts from all parties involved;
7. apply swiftly Article 13(4) of Directive 2009/28, which requires that by 31 December 2014, Member States shall, in their building regulations and codes or by other means with equivalent effect, where appropriate, require the use of minimum levels of energy from renewable sources in new buildings and in existing buildings that are subject to major renovation.
8. As a matter of priority, the Commission should take an initiative to review Regulation (EU) 994/2010 with the aim further to enhance preparedness and solidarity in the EU.

### **Medium and long term measures**

The suggested actions that can enhance EU energy security in the medium and long term are listed under the four goals below<sup>9</sup>:

#### **A. Making progress towards decarbonization of the energy sector and diversification of sources of supply**

1. facilitate cost effective energy efficiency interventions through a full implementation of measures provided in the energy efficiency directive, taking due account of the assessment provided in the July 2014 Commission Communication "Energy efficiency and its contribution to energy security and the 2030 Framework for climate and energy policy"<sup>10</sup>; in this context, it is worthwhile to analyze in each Member State the potential of fuel switching towards increased use of renewable energy sources in the heating sector for the reduction of consumption of imported fossil fuels;

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<sup>9</sup> Some actions may be relevant to more than one goal.

<sup>10</sup> See doc. 12212/14.

2. increase the use of Renewable Energy Sources (RES) in a way that is market-driven. To this aim, their increased deployment should take into consideration issues of market integration and cost-efficiency, and national support schemes should be in compliance with the new Guidelines on State Aid for environmental protection and energy 2014 - 2020 with the view to promote a more cost-effective achievement of the 2020 national renewable energy targets;
3. exploit better the contribution that large-scale use of both micro-generation of renewable energy and micro-storage of energy can make to generation adequacy and security of supply, in line with the Council Report of December 2013 and the Council conclusions of 7 June 2013<sup>11</sup>, which included a call to *inter alia* the Commission with regard to the need of minimizing technical and administrative barriers to the large-scale deployment of these types of generation and storage;
4. strengthen the electricity grids, in particular through the increase of transmission, distribution and storage capacity, to allow the enhancement of network security needed taking into account the growing share of RES in the electricity generation mix, the balancing among neighboring countries of energy produced by RES and, consequently, the reduction of imports of fossil fuels for power generation; in this regard, the decision on specific 2030 interconnection objectives should carefully take into account the cost aspects and consider the relevance of national specificities, including notably geographical factors as well as the level of national peak demand and the potential of commercial exchanges in the relevant regions, when evaluating the optimal level of interconnection capacities between Member States.
5. reduce the EU's oil dependency, including notably in the transport sector, and achieve the 10% target for renewable energy in the transport sector by 2020. To that effect, a rapid and ambitious agreement on the Clean Power for Transport package is important;

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<sup>11</sup> See doc. 9809/13, p. 11.

6. prioritise energy security and the transition to a low carbon economy in the implementation of the EU financial instruments in the period 2014-2020, in particular using the European Regional Development Fund, the Connecting Europe Facility, Horizon 2020 and the European Neighborhood Policy Instrument;
7. ensure investments in energy research and innovation from the EU and Member States, in order to ensure further development of energy technologies, such as energy storage, to meet medium and long-term needs for the transition to a clean energy future. Energy security should be mainstreamed in the implementation of the Horizon 2020 and it should be ensured that the Integrated Roadmap of the Strategic Energy Technology Plan is in line with the European Energy Security Strategy;
8. develop domestic resources of hydrocarbons in a sustainable manner and making the best use of low carbon technologies; in this context, the Commission plans to assess and map Europe's resources of unconventional gas and oil, in cooperation with national geological surveys.

**B. Speeding up the construction of gas import infrastructures**, in order to achieve a better diversification of external gas supplies, whilst maintaining significant import volumes from reliable customers

1. support a better coordination among EU transmission system operators for the realization of gas transportation corridors, as identified in the TEN-E Regulation; in this context it must be ensured, within the existing legislative framework and in close cooperation with all actors involved, the fastest possible implementation of the most urgent infrastructure projects set out in Annex 2 of the EESS;
2. overcome identified bottlenecks and lack of interconnections to avoid that gas networks are supplied by only one entry point, and ensure that Transmission System Operators provide reverse flow capacities in all cross border interconnections;
3. promote, by means of specific regulatory arrangements and/or public funding, the availability of strategic infrastructure, such as storage, import and transport facilities, as well as LNG regasification plants, that can become necessary when emergency situations occur and that, under normal market conditions, are not economically feasible;



4. improve LNG port facilities, regasification and storage capacities and interconnections within the Union so as to ensure that LNG from outside the EU (e.g. from Northern America, Australia and Qatar) can reach the EU and be transported to regional markets.

**C. Ensuring the full integration and well-functioning of energy markets and lower prices for EU energy customers**

1. promote energy exchanges at regional level ('regional approach')<sup>12</sup>, such as market coupling for electricity market and gas exchange, that would allow the energy to flow where it is more needed and facilitate the integration of additional capacity; to this end, price monitoring in the EU energy markets, especially the gas market, would be a useful tool for assessing whether there is any evidence of gas flowing contrary to market signals;
2. ensure the full application of the EU internal energy market and competition rules with regard to gas imported through LNG and promote flexible gas markets including the relaxation of destination clauses in LNG contracts;
3. promote in the supply contracts the adoption of gas pricing formulas linked to hub prices in the destination markets, instead of oil indexation;
4. promote cooperation among individual customers to increase their market power with external suppliers; in this context, the Commission is encouraged to assess options for voluntary demand aggregation that could increase the bargaining power of European buyers in compliance with EU and trade law legislation;
5. continue to ensure the compliance with EU's internal market and competition rules of new energy infrastructure investments, including those involving third countries.

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<sup>12</sup> For instance, BE-DE-FR-LU-NL Pentalateral cooperation.

**D. Focusing the external dimension of EU energy policy on energy security issues, in a joint effort with a more energy sensitive EU foreign policy**

1. open the Southern Gas Corridor as a route for the diversification of sources of supply for Europe and the Balkan region, connecting it to the Ionian – Adriatic pipeline and ensure the possibility for other sources (Iraq, South East Mediterranean Sea and, in the future, Turkmenistan) to have access to this route toward EU;
2. support the upstream developments in new provinces, in particular in the South East Mediterranean Sea (Cyprus, Israel and other countries in the area), in the Black Sea and in North Africa, with the aim to export these resources to EU markets;
3. attract competitive LNG flows by enhancing relationships with gas producing countries, including emerging new suppliers, thus reducing the dependency of Europe on gas imported by pipelines by means of 'Take or Pay' contracts;
4. ensure full transparency in the transit conditions of gas in the networks outside the EU by undertaking coordinated actions in this regard.

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