Council of the
European Union

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NOTE

from:	General Secretariat of the Council
to:	Delegations
Subject:	Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Report on the progress towards the Internal Energy Market = *Draft Council conclusions*

Delegations will find in Annex I a first draft of the conclusions on the completion of the Internal Energy Market. This draft builds on the outline circulated on 11 September 2014 (doc.11461/14) and the subsequent comments received from delegations. The preparation of the conclusions will proceed according to the timetable set out in Annex II.

This first draft of the conclusions will be examined by the Energy Working Party on 30 September and delegations are invited to provide written comments on the text by **10 October cob**.

Draft Council conclusions on the completion
of the Internal Energy Market

The Council of the European Union:

RECALLING:

- the conclusions adopted by the European Council on 4 February 2011, especially with regard to paragraph 4, section I (Energy), noting that the internal market should be completed by 2014 so as to allow gas and electricity to flow freely,
- the conclusions adopted by the European Council on 22 May 2013, especially with regard to paragraph 2, section I (Energy), reaffirming the objectives of completing the internal energy market by 2014 and developing interconnections so as to put an end to any isolation of Member States from European gas and electricity networks by 2015,
- the conclusions on the Commission communication "Making the internal energy market work", adopted by the TTE (Energy) Council on 7 June 2013,
- the Council report on "progress on the completion of the Internal Energy Market", adopted by the TTE (Energy) Council on 12 December 2013,
- the conclusions adopted by the European Council on 20/21 March 2014, especially with regard to paragraph 19 of Section C (Climate and Energy),
- the conclusions on the Commission communication "Energy prices and costs in Europe", adopted by the TTE (Energy) Council on 13 June 2014.

CONSIDERING that the completion of the Internal Energy Market is a pre-requisite to achieve, in the most cost-effective way, the main objectives of the EU energy policy: sustainability, competitiveness and security of energy supply and ACKNOWLEDGING that a well-functioning, integrated and competitive internal energy market is an important component of the 2030 policy framework on climate and energy.

CONSIDERING that Europe is well underway towards the completion of the Internal Energy Market, however, EMPHASISING that further measures are required to remove remaining obstacles for ensuring a well-functioning interconnected and integrated cross-border energy market and the development of interconnections so as to put an end to any isolation of Member States from European gas and electricity networks by 2015.

[WELCOMING the Commission communication, of XX/XX 2014, reporting on the progress towards the Internal Energy Market …..].

IN ORDER TO COMPLETE THE INTERNAL ENERGY MARKET, THE COUNCIL:

1. REAFFIRMS the urgent need for effective and consistent implementation and application of the provisions set out in the Third Energy Package by all EU Member States so as to provide a sound and market-driven investment climate throughout the whole European Union based on a harmonised, stable and transparent legal framework at European level.

2. In order to foster cross-border energy exchanges, STRESSES the importance of further development and swift adoption and implementation of network codes, including respective guidelines, for gas and electricity throughout the European Union and CALLS for the continued work on ensuring a framework of efficient and non-discriminatory use and development of capacities in gas pipelines and electricity grids with transparent tariffs built on common European rules.

3. REAFFIRMS the need for more investments in strategic, smart and flexible infrastructure as being a precondition to the completion of the Internal Energy Market, in particular sufficient interconnections between Member States and regions to improve security of supply, to end energy isolation, to enable the uptake of increasing amounts of variable renewable energy and to foster significant volumes of cross-border trading in gas and electricity.

4. UNDERLINES that the first Union list Projects of Common Interest (PCI), as adopted by the Commission in October 2013, urgently needs to be realised so as to further strengthen the integrated energy market and STRESSES in this regard the continued swift implementation of the "TEN-E Regulation 347/2013 on guidelines for trans-European energy infrastructure" of 17 April 2013 providing fast-track permit authorisation procedures for projects coordinated across borders.

5. REAFFIRMS the need for more investments in strategic, smart and flexible infrastructure as being a precondition to the completion of the Internal Energy Market, in particular sufficient interconnections between Member States and regions to improve security of supply, to end energy isolation and integrate the more remote and/or less well connected parts of the single market, to enable the uptake of increasing amounts of variable renewable energy and to foster significant volumes of cross-border trading in gas and electricity.

6. ACKNOWLEDGES that the Agency for the Cooperation of Energy Regulators (ACER) provided opinions and recommendations on Cost-Benefit Analysis (CBA) methodologies elaborated by the European Networks of Transmission System operators for electricity (ENTSO-E) and for gas (ENTSO-G) and notes that PCI selection and cross-border cost allocation will be based on CBA methodologies.

7. INVITES to review and, where needed, to improve the arrangements for regulatory oversight of the European Networks of Transmission System Operators (ENTSOs) and of other bodies (e.g. nominated electricity market operators, NEMOs).

8. To this end, UNDERLINES the continued cooperative efforts at European level of national administrations, regulators and network operators under the umbrella of ACER and associated in ENTSOs while STRESSING the importance for ENTSOs to actively perform their role of monitoring implementation of the network codes, as they have been entrusted under the Third Energy Package.

9. NOTES that security of supply would benefit from a greater consistency of assessment and policy mechanisms.

10. REAFFIRMS the importance of ensuring stable, competitive and affordable energy prices within the Internal Energy Market and, to this end, RECALLS the Council conclusions of 13 June 2014, especially with regard to paragraphs 3, 4, 6 and 10.

WHOLESALE MARKETS

11. CONSIDERING regional market integration as a decisive step towards ultimate consolidation of a single energy market across the European Union, CALLS for increase of energy exchanges at regional level both in the electricity market, *inter alia* encouraging market coupling, and in the gas market, and UNDERLINES the importance of increasing the level of cross-border cooperation and integration in balancing markets, through the finalisation and early implementation of the related network codes, in order to allow the sharing of balancing resources between Member States and enhance security of supply and generation adequacy at lower costs for the system.

12. RECOGNISES that ensuring generation adequacy is one of the main challenges to be addressed by Member States as the Union moves towards a low carbon energy system; State intervention in this context should be implemented in compliance with the new State aid Guidelines on energy and environment[1]. In this regard, the Council ENCOURAGES the Commission to undertake detailed studies on the development of a European generation and system adequacy assessment, involving also ENTSO-E, ACER and the Member States' authorities, including through the Electricity Coordination Group.

13. CALLS for the development of the Gas Target Model to help manage the uncertainty about future gas demand.

14. STRESSES the need to include in gas supply contracts, the adoption of gas pricing formulas linked to hub prices in the destination markets in order to reduce the importance of oil price indexation.

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[1] Commission's Communication " Guidelines on State aid for environmental protection and energy 2014-2020" of 9 April 2014, http://ec.europa.eu/competition/sectors/energy/eeag_en.pdf

15. REAFFIRMS the importance of ensuring an adequate transparency level in the market for creating a level playing field between market participants and avoiding the scope for market power to be abused. To this aim, recognizing the improvement made thanks to the implementation of the Regulation on wholesale energy market integrity and transparency ('REMIT Regulation'), invites regulators and ACER to keep monitoring the trading activities and welcomes the establishment of ENTSO-E and ENTSO-G Transparency Platform.

16. RECOGNISING that investments in energy infrastructure are capital intensive and require stable and predictable regulatory conditions, STRESSES the need of more market-driven investment signals to optimize the use of existing infrastructure and ensure investments in the most economically sensible projects for the future, without prejudice to the possibility for Member States to take measures to secure supply or determine their national energy mix.

RETAIL MARKETS

17. UNDERLINES the importance of strengthening the role, rights and awareness of consumers in line with the Council conclusions of 7 June 2013 and REAFFIRMS the use of a coordinated and balanced combination of social, energy and consumer policy, as determined by each Member State, to face the challenge of energy poverty and to assist consumers in vulnerable situations, as set out in the Council conclusions of 13 June 2014.

18. SUPPORTS the empowerment of consumers to participate actively in energy markets; including establishing stakeholder panels of energy actors and consumer representative bodies. In this context, UNDERLINES that consumers should be helped to move from passive to active consumption habits exploiting technology and lowering energy prices.
    To that effect consumers should have better access to their consumption data, better tools to make informed choices in a simple manner and to adjust the time and amount of their consumption.

19. STRESSES the innovation as key factor for enabling the retail market designed in a way that it allows all possible innovative business models and technologies. In that regards UNDERLINES the importance of some technologies such as smart meters to fully exploit and reward the potential of demand response and energy efficiency.

20. EMPHASISES the role of the National Regulatory Authorities in ensuring that markets are open and transparent to new tradable service and service providers to guarantee a retail market more competitive. UNDERLINES the need to maintain and develop a secure, reliable, and efficient distribution system taking into account possible network constraints and impacts on technical operation.

21. CALLS for the establishment of a roadmap aimed at competitive and innovative retail markets by 2025.

22. RECOMMENDS to promote a flexible response, and its provision by generators and consumers on a non-discriminatory basis.

NEXT STEPS

23. ACKNOWLEDGES the impact of the above measures on the completion of the Internal Energy Market and CALLS for a follow-up review by the Commission on its progress by [2017].

ANNEX II

PROVISIONAL TIMETABLE

22 July	WP ENER: update on preparation of draft Council conclusions
16 September	WP ENER: presentation of outline of conclusions / reactions
23 September	deadline for comments on outline
30 September	WP ENER: examination of 1st draft conclusions
6 October	**Informal Energy Ministerial**
10 October	deadline for comments on 1st draft
21 October	WP ENER: examination of 2nd draft conclusions
29 October	deadline for comments on 2nd draft
4 November	WP ENER: examination of 3rd draft conclusions
11 November	deadline for comments on 3rd draft
18 November	WP ENER: final examination of draft conclusions
26 November	**Coreper**
9 December	**TTE**