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NOTE

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

Delegations will find in Annex a report produced under the Presidency's responsibility, for which the Presidency received a broad support, resulting from the latest consultations with delegations.

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

The 26-27 June 2014 European Council¹ 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 (EC) also held two strategic debates on energy and climate policy, at its March and June 2014 meetings.

The 20-21 March 2014 European Council² 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')³ which the June EC welcomed and on which it held a first discussion.

¹ See doc. EUCO 79/14.

² See doc. EUCO 7/1/14 REV 1.

³ See doc. 10409/14.

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 preparedness¹.

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.

The European Council also reaffirmed that the EESS is closely linked to the 2030 policy framework on climate and energy². This reflects the fact that the transition to a competitive, low-carbon economy together with the achievement of a well-functioning and interconnected internal energy market and the strengthening of the external dimension of EU energy policy will reduce the dependence of the EU on imported fossil fuels by moderating energy demand, and by increasing the energy supply from safe and sustainable low-carbon technologies, especially renewables and other indigenous resources.

The European Council concluded that interconnectivity must be increased through appropriate measures, including with regard to the Iberian peninsula and the Mediterranean area; progress must be made in order to accelerate further diversification of energy supply. It also underlined the importance of fostering missing infrastructure, to put an end to any isolation of Member States from European gas and electricity networks by 2015. The European Commission proposed in its EESS Communication to extend the current 10% interconnection target to 15% by 2030 while taking into account the cost aspects and the potential of commercial exchanges in the relevant regions; the EESS Communication furthermore stressed the dependence of some Member States on a single gas supplier and identified short and medium-term key projects for security of supply; the EU should help those most vulnerable countries to diversify their sources and supply routes, as a matter of priority.

¹ To be adapted in light of the outcome of the risk assessment.

² "The European Council will take a final decision on the new climate and energy policy framework, including on further measures aimed at enhancing Europe's energy security and on specific 2030 interconnection objectives, no later than October 2014."

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 Market¹ and on the external dimension of the EU energy policy², 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 European Council Conclusions. The report is based on extensive input provided by the Commission and Member States. It aims to further refine the measures highlighted by the European Council 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 and may be subject to further in-depth analysis by the Council in the upcoming months.

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');
- 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 interconnections, 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;

¹ See doc. 17755/13.

² See doc. 17756/13.

- whilst market-based measures should be the primary mechanism for coping with emergency situations, there may be cases where markets fail to deliver proper solutions; in these circumstances, non-market interventions may be needed on a temporary basis to address severe crisis in the short term, as provided in Regulation (EU) No 994/2010. At the same time, continuous efforts should be made to address identified market failures;
- 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;
- without prejudice to European Commission's right of initiative, the measures listed below should be implemented, as far as possible, within the existing legislative framework.

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 (EU) No 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, except those for which an exemption is provided in the same Regulation.

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 measures¹. In particular, considering the speed at which decisions need to be taken and implemented in case of emergency, the development of regional emergency plans², as well as preventive action plans, as foreseen under Regulation (EU) No 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, including with Energy Community contracting parties. 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. Monitor and improve arrangements for a better use of regasification and storage capacities in the gas system if, in emergency situations, the normal functioning of the market has not led to the optimal use of those facilities, meanwhile avoiding unnecessary market distortions; in this context promote, also through coordinated emergency regimes, more detailed information with regard to the level of gas injection in the gas storages in EU Member States and in the Energy Community contracting parties.
4. Swiftly implement 'TEN-E' Regulation (EU) No 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, including implementing the projects of common interest complying with the criteria set out under Art. 4 of the same Regulation.

¹ *Note for the delegations: in accordance with Art. 14 of Reg. 994/2010, this report shall be provided by the Commission by December 2014.*

² For instance, CZ-HU-PL-SK regional emergency plan, as well as EE-LT-LV regional emergency plan under preparation, *inter alia*.

5. Harmonise the main rules for electricity and gas exchange 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.
6. Support the Commission in its obligation to review the implementation of Regulation (EU) No 994/2010 with the aim further to enhance the security of supply, also with regard to preparedness and solidarity in the EU with a special focus on EU and/or regional coordination in preventive action and in emergency situations.

MEDIUM-TERM 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 below¹:

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"². In this context, it is worthwhile to analyze in each Member State strategies to exploit the potential of reducing consumption of imported fossil fuels, notably in the building sector, where appropriate through increased use of renewable energy sources and modernization of heating and cooling.

¹ Some actions may be relevant to more than one goal.

² See doc. 12212/14.

2. Promote the development of all domestic resources in a sustainable manner and make the best use of safe and sustainable low carbon technologies in full respect of national policy decisions and duly taking into account medium and long term climate and energy objectives¹.
3. Strengthen the electricity grids, taking into account the growing share of Renewable Energy Sources (RES), to enhance network security and generation adequacy and consequently reduce the use of imported fossil fuels for power generation. This can be achieved notably through the increase of transmission, distribution and storage capacity, whilst encouraging demand-side management and regional network balancing with special attention to loop-flows. In this regard, the decision on specific 2030 interconnection objectives² should be based on a thorough assessment of costs and benefits, as well as of relevant national specificities, including notably geographical factors, the generation mix, 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.
4. 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 by application of both sustainable and cost-effective measures while making efforts to preserve the competitiveness of EU refinery industry. To that effect, a rapid and adequate transposition in national legislations and policies of the 'Clean Power for Transport' Directive on the deployment of alternative fuels infrastructure is essential³. In this regard, continued efforts will be needed post 2020 to increase efficiency and extend use of alternative fuels in the transport sector.

¹ This report does not prejudice in any way the final decision on 2030 climate and energy policy framework which will be taken by the European Council, as provided in paragraph 23 of doc. EUCO 79/14 of June EC conclusions

² This report does not prejudice in any way the final decision on specific interconnections objectives, which will be taken by the European Council, as provided in paragraph 23 of doc. EUCO 79/14 of June EC conclusions.

³ See doc. XXX/14, (*to be published in the OJ during the autumn 2014*).

5. Prioritise energy security and the transition to a safe and sustainable 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 Cohesion Fund, the Connecting Europe Facility, Horizon 2020 and the European Neighborhood Policy Instrument.
6. Ensure investments in energy research and innovation from the EU and Member States, in order to ensure further development of energy technologies¹ aimed at meeting medium and long-term needs for the transition to a low carbon economy. 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 Plan² is in line with the European Energy Security Strategy and the long-term climate and energy targets.

B. Speeding up the construction of gas infrastructures, in order to achieve a better diversification of external gas supplies and build a fully integrated internal market, 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 taking into account the technical and economic feasibility and market conditions, the fastest possible implementation of the most urgent infrastructure projects, especially those 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 new cross border interconnections, except those for which an exemption is provided in Reg. (EU) No 994/2010.

¹ Such as Clean Coal Technologies including Carbon Capture and Storage.

² AT recalls its statement to the minutes of the Council on 28 February 2008 regarding the Strategic Energy Technology Plan (See Annex of doc. 7033/08).

3. Promote the diversification of supplies, sources and routes, through the availability of strategic infrastructures, such as storage, import and transport facilities, as well as LNG plants, that can facilitate enhanced supply when emergency situations occur. Under normal market conditions, these infrastructures may not be fully economically and commercially feasible; therefore they may be supported by means of specific regulatory arrangements and/or public funding as provided by the 'trans-European energy infrastructure' Regulation (EU) No. 347/2013 and the 'Connecting Europe Facility' Regulation (EU) No. 1316/2013.
4. Improve and, where appropriate, build LNG infrastructures and related port facilities, as well as storage capacities and interconnections within the Union, so that LNG, also from outside the EU (e.g. from Northern America, Australia and Qatar), can reach EU regional markets and contribute to ending energy isolation in concerned Member States.

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

1. Promote energy exchanges at regional level ('regional approach')¹, 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, via the Regulation on Energy Market Integrity and Transparency (REMIT), is a useful tool for ensuring that energy flows according to price signals.
2. Explore the possibility for coordinated procedures and simplified regimes for the allocation of virtual reverse flow capacity for its usage in non-neighboring Member States, taking into account existing and contractual capacities at the interconnection points among Member States. In this regard, a swift adoption and further development of network codes on the allocation of capacity in gas pipelines could be relevant.

¹ For instance, BE-DE-FR-LU-NL Pentalateral cooperation and CZ-HU-RO-SK market coupling.

3. Ensure the full application of the EU internal energy market and competition rules for all infrastructures and promote flexible gas markets, notably ensuring the removal of clauses contrary to the EU law, such as destination clauses, especially with regard to gas imports through LNG.
4. Promote in the supply contracts the adoption of gas pricing formulas linked to hub prices in the destination markets, instead of oil indexation.
5. Seek to improve the bargaining power of EU buyers vis-à-vis external suppliers and transparency on the gas market; in this context, the Commission is encouraged to assess options for voluntary demand aggregation and cooperation among buyers, in full compliance with EU trade and competition legislation.
6. Continue to ensure the compliance with EU's internal market and competition rules of new energy infrastructure investments, including those involving third countries, also through a high degree of transparency in the intergovernmental agreements.
7. Make use of RES in a way that is more market-based. To this aim, their increased deployment, including interconnection reinforcements, should also take into consideration issues of market integration, cost-efficiency and grid stability. 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.

D. Strengthening the external dimension of EU energy policy and the link between energy security and foreign policy

1. Reinforce the coordination and synergies between energy and foreign policy activities and objectives, and ensure, especially in crisis situations, the coherence between energy-related actions and the wider EU response.

2. Support the opening of the Southern Corridor as a route for the diversification of supply for Europe and the Balkan region, also connecting it to the Interconnections Greece-Bulgaria, Turkey-Bulgaria, Bulgaria-Romania, Romania-Hungary and Ionian–Adriatic pipeline, and ensure the possibility for sources from other potential suppliers (e.g. Iraq, Mediterranean Sea and Turkmenistan) to have access to this route toward the EU.
3. Encourage actively the upstream¹ developments in new regions, in particular in the Mediterranean Sea (Cyprus, Israel and other countries in the area), in the Black Sea (Bulgaria, Romania and other countries in the area), in the North Sea and in North Africa, with the aim to export these resources to EU markets.
4. Promote EU attraction to competitive LNG flows by enhancing relationships with gas producing countries, including emerging new suppliers, thus contributing to increase flexibility and liquidity in the gas market.
5. Further strengthen the cooperation with EU's neighboring countries on building an integrated energy market in order to enhance Europe's collective energy security, notably by enhancing the Energy Community.
6. Strive for full transparency in the transit conditions of gas in the networks outside the EU by undertaking coordinated actions in this regard.

The Council will review the above list of medium and long-term measures, no later than [*end 2015*].

¹ In this context, the Commission plans to assess and map where appropriate Europe's resources of unconventional gas and oil, in cooperation with national geological surveys and in full respect of national policy decisions.