COUNCIL OF THE EUROPEAN UNION

Brussels, 31 October 2013

13515/13

ENER 407

NOTE

from:	General Secretariat of the Council
to:	Delegations
Subject:	Follow-up to the European Council of 22 May 2013 - *Draft Report by the Presidency*

Introduction

The strategic debate held at the European Council meeting of 22 May 2013 highlighted the five priorities for Member States and the Commission in the area of energy policy: the single energy market, investments, diversification of energy sources, energy efficiency and competitiveness. In its conclusions [1], the European Council reaffirmed "*... 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*". Furthermore, it agreed on many concrete operational elements, and invited the TTE (Energy) Council to report back on progress by the end of this year. This Presidency draft report will therefore be presented at the TTE (Energy) Council on 12 December 2013, in anticipation of the Commission Report on the progress in completing the internal energy market to be presented in early 2014.

[1] Note: see corresponding conclusions in doc. EUCO 75/1/13 REV 1

The report is based on extensive input provided by the Commission and Member States, delivered *inter alia* at meetings of the Council Energy Working Party [1]. At those meetings, the following key practical aspects of the completion of the Internal Energy Market were discussed in depth: network codes; consumer rights and vulnerable consumers; the Commission Delegated Regulation establishing the list of Projects of Common Interest; the Commission Communication "*Long term infrastructure vision for Europe and beyond*", including the concept of 'projects of mutual interest'; energy prices, regulated pricing and competitiveness; linked oil and gas pricing; public intervention/state aid; and energy technologies and innovation.

The report is divided in the following parts:

I. Completing the Internal Energy Market (IEM) and ending energy isolation
II. Ensuring investments
III. Diversification, energy efficiency and pricing
IV. Conclusions

For ease of reading, the report follows broadly the order of issues as set out in the European Council conclusions.

It should be borne in mind that:

- after the abovementioned adoption of conclusions by the European Council, the TTE (Energy) Council on 7 June 2013 adopted detailed conclusions on the completion of the Internal Energy Market [2]. These conclusions addressed many of the issues mentioned in the annexed Report;
- issues relating to the external dimension of the EU energy policy are addressed separately in another Council review [3], taking place in parallel;

The Presidency report in Annex should therefore be read in conjunction with the aforementioned European Council conclusions and TTE (Energy) Council conclusions, whilst taking into account the outcome of the review on the external dimension.

_____

[1] N.B. input resulting from the upcoming Energy Working Party discussion on 12 Nov. on energy technologies and innovation and state aid/interventions, etc., will be incorporated after that discussion.

[2] doc. 9809/13 ENER 199

[3] See point 6(c) of the May 2013 European Council conclusions, and the draft Report from the Presidency, doc. 14071/1/13 REV 1.

ANNEX

FOLLOW-UP TO THE EUROPEAN COUNCIL OF 22 MAY 2013

Report by the Presidency

I. Completing the Internal Energy Market (IEM) and ending energy isolation

Member States are committed to the swift implementation of **'TEN-E' Regulation 347/2013 on guidelines for trans-European energy infrastructure**, adopted on 17 April 2013. This Regulation will play an important role in relation to *inter alia* the 2015 target on the end of energy isolation. It introduces fast-track permit authorisation procedures for Projects of Common Interest - coordinated across borders [1].

In line with the provisions of this Regulation, the Commission presented (on 14 October) the **first Union list of energy infrastructure Projects of Common Interest** (PCIs) [2], based on the decisions of the Regional Groups' decision-making bodies and the opinions expressed by the Member States. The list contains 248 projects spread over the 12 priority corridors and areas. This marks an important milestone for the implementation of a fully interconnected trans-European energy network.

The accompanying **Commission Communication "*Long term infrastructure vision for Europe and beyond*"** [3] sets out its long term vision, how the current PCIs will contribute, and the areas where further projects will be needed. The implementation of the electricity PCIs will achieve the 10% interconnection target for all Member States except one, whilst the situation of "energy islands" such as the Baltic states will greatly improve. The implementation of the gas PCIs will improve security of supply as all Member States will have more than one supplier; in addition, completion of these projects will contribute to the fulfilment of the N-1 rule.

---

1 Note: these authorisation procedures must be completed, depending on procedural aspects, within three and a half years to four and a half years.

2 Note: Commission Delegated Regulation (EU) No …/.. of 14.10.2013 amending Regulation (EU) No 347/2013 of the European Parliament and of the Council on guidelines for trans-European energy infrastructure as regards the Union list of projects of common interest, doc. 14825 ENER 463 CADREFIN 258 DELACT 55.

3 doc. 14835/13 ENER 464

The Union PCIs list includes some links to non-Union countries; in this context the identification of so-called "Projects of Energy Community Interest" by the Energy Community is welcomed, and a reflection on how to ensure further improvements of the Union's interconnections with neighbouring countries could be started.

In addition, the Commission services have elaborated a **guidance document** to support Member States in defining adequate legislative and non-legislative measures to streamline environmental assessment procedures for PCIs and to ensure coherent application of environmental assessment procedures required under Union law. The document includes recommendations that are based on implementation experience and best practices.

The European Network of Transmission System Operators (ENTSO) for electricity and gas are preparing a **harmonised energy system-wide cost-benefit analysis** at Union level for PCIs, to be presented in 2014.

* * *

As the IEM nears its completion, many Member States are involved in **regional market coupling initiatives** - for both electricity and gas markets. Such initiatives are possible because of the closer approximation of rules and regulations in recent years; at the same time, they contribute to the improved functioning of the IEM.

All actors concerned are continuing their efforts and cooperation to ensure the correct implementation of the **Third Energy Package**. However, in several Member States there are delays in the adjustment of national legislation, and several infringement cases are still open at different stages. The proper transposition of the package into national law - in letter and spirit - is crucial for enhancing effective competition and allowing consumers to play an active role in the market. Furthermore, while progress in the wholesale energy markets has been achieved as a result of the implementation of the package, there is major scope for **increasing competition in retail markets** and empowering consumers to actively manage both their consumption and supply of energy.

The harmonisation of the main **rules for electricity and gas trade and grid operation** is a centrepiece of the completion of the IEM. The adoption of **network codes** is speeding up considerably. The majority of the network codes will reach the Member States technical committees during the next months, with a view to adopting the most important network codes in 2014 [1].

As regards the implementation of **other legislation of direct relevance to the completion of the internal market**, the following should be noted:

- By 3 December 2014, all the elements of **Regulation 994/2010 on the security of gas supply** will be operational. Following the expiry of the December 2012 deadline regarding the Preventive Action Plans and Emergency Plans, the Commission launched a formal dialogue with several Member States (under the EU Pilot system). The Commission has analysed the submitted plans and is preparing recommendations and/or comments to Member States.
  There are two major milestones remaining in the implementation of the Regulation: permanent bi-directional capacity must be enabled by TSOs by 3 December 2013, and Member States are to take the necessary measures to comply with the N-1 obligation, not later than 3 December 2014.
  Based on the information included in the Preventive Action Plans, 18 Member States already fulfil the N-1 obligation in 2013, whereas the extent to which the N-1 rule is fulfilled varies between 10% and 270%. The value of the N-1 constantly evolves depending on the development of peak demand, domestic production and on infrastructure improvements. As such, in the case of those Member States, which stand close to 100% either above or below, it is not certain at this stage whether they will comply with the obligation by 2014.

[1] Note: the state of play for the **main codes for electricity**:
Market Codes: "Market coupling", adoption expected in autumn 2013. "Forward" code, adoption foreseen for the spring of 2014. "Balancing market rules", adoption foreseen for mid-2014;
Grid Operation Codes: "Grid Connection Codes", adoption foreseen for the end of 2013. "System Operation Codes", adoption foreseen for the end of 2014.

The state of play for the **main codes and guidelines for gas**:
"Congestion Management Procedures", already adopted; "Capacity Allocation Mechanisms", already adopted; "Gas Balancing", currently in comitology; "Interoperability", adoption foreseen for January 2014; "Tariffs", adoption foreseen for 2015.

- In the context of the implementation of the **'Renewables Directive' 2009/28/EC**, significant growth in the exploitation of indigenous EU wind, solar and biomass resources has been achieved in recent years: in 2010, the share of renewable energy in the EU reached 12.7%. The Commission's "*Renewable energy progress report*" of March 2013 [1] highlighted that most Member States are on track to reach their first interim target and to stay on their trajectory. However, the report also suggests that further measures appear necessary in nearly all Member States in order to stay on track and achieve the 2020 targets [2]. There remains a large potential for the greater use of cooperation mechanisms and joint support schemes involving several Member States, which could *inter alia* lead to more optimal (geographic) generation conditions and thus to more cost-efficient generation. The next milestone is the presentation of Member States progress reports by the end of 2013 [3].
  In the context of renewable energy, the future actions and next steps set out in the November 2012 Council conclusions[4] on the topic should be implemented.

* * *

With regard to action on the **demand side**, including notably as regards **smart grids and smart meters**, the following should be noted:

- The existing provisions in Third Energy Package Electricity Directive establish obligations on Member States, NRAs, TSOs and DSO to enable and promote demand response, allowing the market to develop further and work towards consumer satisfaction. This EU framework requires transmission and distribution tariffs to be fair, transparent and cost-reflective.

---

1 doc. 8098/13 ENER 110 ENV 260

2 Note: the Commission reports that transposition by most Member States has been slow, with still 14 infringement cases underway.

3 Note: the European Council also mentioned the deployment of renewable energy sources in the context of the diversification of Europe's energy supply and the development of indigenous energy resources.

4 doc. 16205/12

- The Electricity and Gas Directives also encourage Member States to develop the distribution networks by introducing - subject to certain conditions among which a positive cost/benefit analysis - smart grids and intelligent metering systems, in order to enable the active participation of consumers in the energy supply market. Several Member States have already rolled out, or have started to roll out, intelligent metering systems; in this way, practical experience is gathered that could be useful for others. The Member States have completed cost/benefit analyses and smart metering roll-out plans, which the Commission is currently analysing [1]. The Commission will present by the end of 2013 a Benchmarking Report, containing the results of its analysis and country-specific recommendations.
- Article 15 of the Energy Efficiency Directive aims at maximizing grid and infrastructure efficiency and at promoting demand response, putting it on an equal footing with supply. This framework will enable and promote voluntary aggregation of individual consumers and open up the market to exploit the potential of demand response. It also requires removing existing tariff elements that hamper the development of demand response and it promotes the development of dynamic pricing for demand response solutions.

* * *

Specific provisions in the EU's internal energy market legislation (Third Package), the Energy Efficiency Directive, the Renewable Energy Directive and the Directive on the energy performance of buildings aim at giving **consumers** more rights and an active role, by providing them with the choice to switch suppliers, and with accurate information (such as on pricing and energy consumption), while ensuring effective protection and enforcement of their rights. **Switching rates** vary considerably between Member States: in 2011, depending on the Member State, between 0% and 19% of consumers switched between gas suppliers, and between 0 and 15% switched electricity supplier. Low switching rates may indicate a lack of competition in some Member States where insufficient implementation of unbundling and / or regulated prices deter competitors' market entry.

---

[1] Note: for **electricity**, 16 Member States are preparing a wide roll-out of smart electricity metering by 2020 or earlier, whereas 7 Member States conducted CBAs with negative outcomes. However, some decisions on roll-out are still pending, and some Member States have not yet communicated their actions.
For **gas**, 5 Member States have decided to roll-out smart gas metering by 2020 or earlier, whereas 12 Member States conducted CBAs with negative outcomes. However, some decisions on roll-out are still pending, and several Member States have not yet communicated their actions.
It is recalled that negative CBA outcomes do not prejudge future re-evaluations, as conditions change (such as prices of smart metering systems) and as more experience is gained.

Furthermore, EU legislation establishes **energy consumer protection rights** which have to be set out in the national laws of each Member State. These rights should help consumers get a better deal, reduce their energy costs and track their own energy use. National regulatory authorities have a duty to help ensure that consumer rights are respected, and that consumers are effectively protected in line with the law.

Many Member States have developed successful **initiatives to promote the role and rights of consumers**. Regulatory approaches concern for example clear tariff structures, clear and comprehensible billing and access to correct price signals. Tools used include information desks, codes of conduct for companies, phone helplines, interactive websites, ombudsmen or help via municipal authorities. These tools provide easy access to information, allow the comparison of different tariffs and offers, facilitate switching (or even enable switching to be effectuated entirely via phone or internet), lower barriers to switching, help to overcome inertia by consumers, inform consumers of their rights and deal with complaints.

Council has underlined the importance of protecting **vulnerable consumers**, through energy policy and/or social policy. Several Member States are undertaking various actions and policies aimed specifically at vulnerable consumers, such as establishing a definition of vulnerable consumers for policy purposes, establishing suppliers of last resort, focused assistance, establishing social tariffs or social discounts, free or subsidized energy efficiency measures, setting minimum periods before energy deliveries can be suspended in cases of non-payment, prohibitions to cut off energy services during the winter, *et cetera*.

As part of the drive to step up the role and rights of consumers, more must be done by Member States to stimulate and enable **renewable energy generation by consumers**, as well as, in a later stage, **electricity storage by consumers**. This should be done *inter alia* by abolishing unjustified technical and administrative barriers. Tapping this potential is not only important for achieving the Union's climate and renewable energy targets, but also for employment, economic growth and innovation. In the absence of targeted Union legislation, this remains an important responsibility of Member States.

To improve consumers' awareness of their rights and thereby increase the active role of the consumer, the Commission is preparing a reader-friendly list of European Energy consumers' rights.

The Commission is preparing infringement cases for those Member States that have not fully transposed the general consumer protection measures, as well as the measures relating specifically to vulnerable consumers.

* * *

Concerns about generation adequacy as a result of the increasing shares of renewables and a lack of storage capacity have led a number of Member States to consider, or introduce, **capacity mechanisms**. However, other Member States view the use of such mechanisms with concern, in view of their potential effects on the functioning of the IEM. Therefore, the causes of generation adequacy concerns should be studied carefully, and solutions should be designed in such a way that they are well-adapted to their purpose and the least distortive possible. This includes looking into alternative measures, such as increased interconnection, demand response and storage. Further analysis, and discussion at Union level, is essential. The Commission intends to provide guidance in late autumn on the broader topic of **state intervention** in the internal market, addressing *inter alia* support schemes for renewable energies and capacity mechanisms, and Council is looking forward to this. [1]

Transmission System Operators have a key responsibility in developing solutions to problems that **loop-flows** cause in certain Member States for the operation of their electricity system, an issue which Council has underlined in its conclusions of June 2013. The Commission is also committed to finding solutions, and will publish an expert study in autumn 2013 with the aim of identifying and assessing solutions to the problems. Furthermore, ENTSO-E, ACER and the Florence Forum are working to improve the efficiency of the bidding-zones structure in Europe. [2]

[1] Note: the text in this paragraph is subject to updates in light of the discussion (on public intervention) in the Energy Working Party on 12 November.

[2] Note: the text in this paragraph is subject to updates in light of the discussion (on public intervention) in the Energy Working Party on 12 November.

Henceforth, Member States should inform, in good time, other Member States concerned of **major national energy decisions** which have a possible impact on those other Member States. A regular exchange of information on such major national energy decisions could take place as appropriate in the regular biennial Director-General meetings. More in-depth work could take place in appropriate bodies such as the Gas Coordination Group, the Electricity Coordination Group, the Oil Coordination Group. Fora such as ENTSO-E and ENTSO-G could also play a role.

The November 2012 Commission Communication on the progress of completing the internal energy market [1] summarized in an Action Plan the main actions to be undertaken in order to resolve the major obstacles towards the 2014 goal. In early 2014, the Commission will present a **Report** that will address all the follow-up actions, taking stock of progress and identifying shortcomings, ahead of the March 2014 European Council.

[1] "*Making the internal energy market work*", doc. 16202/12 ENER 467

II. Ensuring investments

A clear framework for climate and energy policies in a 2030 perspective is needed to reduce uncertainty among investors, governments and citizens, in particular taking into account the long term nature of **investments** in energy infrastructure. In March 2014, the European Council will discuss policy options for the 2030 framework for energy and climate, on the basis of Commission proposals. Such discussions will take into consideration the coherence of Union climate, energy and industrial policies and their objectives, negotiations on a possible 2015 global climate agreement, but also issues linked to competitiveness, price levels and carbon leakage. In preparation, the Commission presented a Green Paper "*A 2030 framework for climate and energy policies*" in March 2013, followed up by a public consultation with a strong response of stakeholders [1].

The Council is currently examining the Commission proposal for a **Directive on the deployment of alternative fuels infrastructure**. The negotiations are progressing in a constructive atmosphere. The Lithuanian Presidency aims to reach a general approach before the end of 2013.

[1] Note: the Commission is preparing the report on the outcome of this presentation, and has already presented preliminary information. According to the Commission's analysis: "Member States and stakeholders are expecting the EU to provide a 2030 framework in order to reduce uncertainty among investors, governments and citizens; there is a broad consensus among Member States and stakeholders on the need for a new Greenhouse gas (GHG) reduction target, whereas there are different views on the appropriate level of ambition. Furthermore, Member States and stakeholders emphasized the need for climate and energy policy to continue to take into account the three prime objectives of energy policy: *competitiveness, security of supply* and *sustainability*. There is great awareness that the EU climate and energy policy should give greater consideration to the consequences of the on-going economic crisis, international developments and, in particular, their potential adverse effects on European competitiveness. A vast majority of stakeholders also point out that the EU should increase efforts to diversify energy supply sources and routes in a 2030 perspective."

The Commission plans to adopt **guidelines on state aid for energy and environmental protection** in 2014. These guidelines will set out clear and transparent principles for assessing whether or not state aid for energy is justified. The purpose is to ensure that subsidies do not unduly distort the internal energy market. The TTE (Energy) Council, in its conclusions of June 2013, repeated its call to Member States to "*rationalise and to phase out environmentally or economically harmful subsidies, including for fossil fuels*".

The European Council called for national and EU measures to boost the **financing of energy and resource efficiency, energy infrastructure and renewables** and promote the development of Europe's technological and industrial basis. In this context, the impact of the € 4bn European Energy Programme for Recovery (EEPR) remains considerable. Set up in 2009 to co-finance projects designed to make energy supplies more reliable and help reduce greenhouse emissions, the EEPR simultaneously boosts Europe's economic recovery. The projects cover 3 broad fields: gas and electricity infrastructure projects, offshore wind projects and carbon capture and storage projects.
The European Energy Efficiency Fund (EEEF) was established with unspent fund from the EEPR (€ 146.3 million) to support energy efficiency, renewable energy and clean urban transport projects at local and regional level. Up to now, around € 40 million of project investments have been signed, another € 60 million projects were approved by the Fund pending final agreement and signature. A sound project pipeline has been developed with approximately €100 million of investment. A mid-term report will be published together with the EEPR annual report, foreseen for adoption in November 2013.
By mid-2013, almost € 1.5 billion was spent on the EEPR and EEEF [1] [2].

It is expected that the Regulation for the **Connecting Europe Facility** enters into force by the end of 2013. The budget for the energy sector component of the CEF [3] is € 5.850 billion in current prices for the period 2014 - 2020. CEF funding will *inter alia* support the construction of PCIs that are vital for the completion of the IEM or that contribute to security of supply, but that cannot be financed by the market. As regards **innovative forms of financing**, the CEF provides for the continuation of the Project Bond Initiative.

---

1 For the period 2010-2013 under the EEPR about € 782 million was spent on interconnectors, € 442 million on CCS, and € 204 million on offshore wind energy.

2 Note: a report on the EEPR and EEEF is due on 26 November; the text of this paragraph may be adapted if necessary.

3 Note: 'TEN-E' Regulation 347/2013 on guidelines for trans-European energy infrastructure, see point I.

On 2 May 2013, the Commission adopted a Communication on **Energy Technologies and Innovation.** As part of the key measures proposed in this Communication an 'Integrated Roadmap' under the guidance of the SET Plan Steering Group will be developed by the beginning of 2014. The objective of the 'Integrated Roadmap' is to prioritise the development of innovative solutions which will respond to the needs of the European energy system by 2020, 2030 and beyond.
The Integrated Roadmap should: (1) address energy system and innovation chain integration, (2) consolidate the (up-dated) technology roadmaps of the SET Plan and incorporate energy efficiency as a stand-alone priority, (3) cover the entire research and innovation chain from basic research to demonstration and support for market roll-out and (4) identify clear roles and tasks for the various stakeholders such as the European Energy Research Alliance (EERA), the European Industrial Initiatives (EIIs), the European Institute of Technology (EIT), energy efficiency stakeholders, the relevant European PPPs and other stakeholders such as universities, research institutes, investors and financiers.

In addition to sectoral technological developments, the Integrated Roadmap intends to address the following dimensions, in order to provide solutions enabling future changes of the EU energy system by 2030 and beyond: increasing the rate of energy saving across all sectors; delivering improvements of economics and functionalities for the consumers of technologies and services; increasing integration capability and enhancing complementarity, across technologies and innovative solutions; promoting integrated solutions across generation, transmission, distribution and end use; enhancing EU competitiveness and enabling the deployment of technologies, through specific actions; assessing technology maturity and added value to the EU of actions.
To implement the Integrated Roadmap, the Communication on Energy Technologies and Innovation proposes to develop an Action Plan by the Member States and the Commission that lays down coordinated and/or joint investments by individual Member States, between Member States and with the EU. The Action Plan will be developed by mid-2014. The goal of the Action Plan is to provide an overview of public funding available to support the Integrated Roadmap.

1

[1] Note: the text on this page is subject to updates in light of the discussion (on energy technologies and innovation) in the Energy Working Party on 12 November.

III. Diversification, energy efficiency and pricing

With a view to the safe exploitation of off-shore indigenous sources of energy, Directive 2013/30/EU on **safety of offshore oil and gas operations** was adopted on 12 June 2013. Furthermore, in the context of the diversification of Europe's energy supply, in particular by the development of **indigenous energy resources**, the Commission is working on an "*Environment, Climate and Energy Assessment Framework to Enable Safe and Secure Unconventional Hydrocarbon Extraction*", expected before the end of 2013. The general objective is to ensure that **unconventional fossil fuels** developments, in particular **shale gas**, are carried out with proper climate and environmental safeguards in place and under maximum legal clarity and predictability for competent authorities, citizens and operators.

The **Energy Efficiency Directive** 2012/27/EU is the key policy driver to deliver on the 2020 energy efficiency policy objectives and 20% target. Achieving this will benefit the Union's competitiveness and increase its energy independence, and will also facilitate the achievement of the Union's greenhouse gas emission and renewable energy targets (since less energy is consumed). The deadline for Member States to develop national measures transposing most provisions is June 2014, but some key milestones must be achieved before 31 December 2013.
All Member States have notified their national indicative energy targets to the Commission. The Commission estimates that national indicative energy efficiency targets, taken collectively, suggest that the Member States aim to achieve only about 16.4% primary energy savings and 17.7% final energy savings by 2020 – not the full 20% needed to meet the EU's overall target. It is therefore important to increase efforts in order to achieve the 20% target. The Commission will report on progress towards the target in June 2014.

After adoption of the **Directive 2010/31/EU on the energy performance of buildings** ('EPBD') in 2010, Member States had until 9 July 2012 to transpose the recast EPBD into their national legislation. By September 2013, the Commission had launched 27 non-communication infringement procedures of which 22 have reached Reasoned Opinion stage, so better efforts are needed. As regards nearly-zero energy buildings ('NZEBs'), little progress has been made by the Member States in their preparations towards NZEBs by 2020 [1]. A lack of proper and timely preparation increases the risk that Member States will not meet the deadlines for new buildings to be NZEBs. Moreover, the absence of clear definitions, interim targets and dedicated support measures in many Member States means that the building sector faces uncertainty over the regulatory and policy framework for NZEBs, thus delaying the necessary investments in technology, processes and training, and reducing the benefits of this legislative provision for competitiveness, innovation and employment.

The Commission intends to review the **Energy Labelling Directive** and certain aspects of the **Ecodesign Directive** by the end of 2014. The rate of adoption of energy labelling and ecodesign measures has increased substantially, spurring industrial innovation and translating in huge energy savings. In the year 2013 alone, 8 new Ecodesign and 7 new Energy Labelling measures will have been adopted.

In order to address the **impact of high energy prices and costs**, in the context of the Union's **competitiveness**, the following actions are undertaken:

- **Long-term contracts in the EU wholesale gas market** are characterised by their length, by pricing terms, e.g. indexation to non-gas price benchmarks such as crude oil has been standard industry practice for years, and by volume flexibility, e.g. take or pay clauses. However, since oil and gas markets have decoupled more and more and concerns about long term security of gas supply have lessened, questions have been raised on the justification and fairness of this practice. Several producers, also on the global market, are changing their pricing policy. A general trend to more flexible and more short-term contracts is seen, e.g. with new upstream contracts in the range of 10-15 years. Regarding pricing in long-term contracts, one can already observe contracts based on hub price developments at EU trading points: while oil-indexed contracts represented close to 60% of total European supply in 2011 and 2012, this is estimated to decrease to less than 50% in 2014 [2]. The Commission is currently investigating whether oil-indexation could, under certain circumstances, be contrary to EU competition rules.

---

[1] See the Commission report "*Progress by Member States towards Nearly Zero-energy buildings*", doc. 11854/1/13 REV 1.

[2] See "*Study on LT-ST Markets in gas*", KEMA report prepared for DG ENER, August 2013, esp. section 3.12.1, as well as "*Price formation in commodities markets*", p. 117-118, a European Capital Markets Institute/Centre for European Policy Studies report, June 2013. See also the Commission Quarterly Report on European Gas Markets for evidence of this changing pricing policy.

Further exchanges of views on the topic at Union level should take place, but Member States already highlighted the need to ensure a higher liquidity for the gas market, which could be done by giving a greater weighting to hub price developments in (renegotiated) long-term contracts, and for which also more infrastructure is needed (interconnections, reverse flow installations, LNG…). However, it was also recalled that this issue is a matter of contracts between private parties, and that there is the need to ensure attractive conditions for long-term investment in gas infrastructure.

- The **analysis of the composition and drivers of energy prices and costs** requested by the European Council is currently being prepared by the Commission and will encompass:
  - = analysis of energy prices for household and industrial consumers in the EU;
  - = analysis of energy costs in industry and in households;
  - = analysis of price developments in the EU vis-à-vis price developments in other major economies;
  - = future developments.

  It is recalled that the European Council intends to return to these issues in February 2014 in the context of the scheduled discussion on industrial competitiveness and policy.

Council is eagerly awaiting the aforementioned Commission's analysis, as a basis for further discussion. Member States have mentioned the following **factors underlying the generally increasing energy prices and costs**: imperfections in market functioning and a lack of competition that are due to a high degree of dependence on a single supplier or on a single source of energy, or due to a lack of interconnections which may result in markets that do not benefit from economies of scale; a relatively weak negotiating position vis-à-vis single suppliers; increasing taxation; the gradual phasing out of regulated prices; rising costs for infrastructure and for the promotion of renewable energy; and long-term oil-indexed gas contracts. Furthermore, among the issues underlined in this context are the political sensitivity of energy pricing, the effects on citizens and on the competitiveness of industry (in particular the energy-intensive industry), but also the case for energy efficiency as a 'no-regrets' way to counterbalance rising prices, and the opportunity for fundamental industrial innovation in the EU for which high energy prices can be a powerful driving force.

IV. Conclusions

The EU needs a fully functioning, interconnected and integrated IEM. A clear deadline for the completion of the IEM - by the end of 2014 - has been set. Despite major progress in the different areas, sustained efforts are needed to achieve this goal.

The three major priorities for further efforts are:

1. Further harmonisation through the implementation of the Third Energy package. This is crucial for boosting effective competition and allowing consumers to play an active role in the market, and so full transposition by all Member States is urgent. The urgent development and implementation of electricity and gas network codes is crucial, and efforts from all parties involved are needed. Implemented network codes will contribute significantly to the effective operation of all market players, and will permit the functioning of the energy system with - for all those players - a sufficient level of decision-making power and coherence, security and quality, coordination and data exchange;

2. Further development of energy infrastructure with no delay. Now that the first Union list of energy infrastructure Projects of Common Interest is ready for adoption, and the Connecting Europe Facility has been established, Member States, with the assistance of the Commission, should streamline and accelerate permit granting and related procedures in accordance with the recently adopted 'TEN-E' Regulation 347/2013, in order to speed up the development of PCIs. Completed PCIs will contribute decisively towards the finalisation of the IEM, lower energy isolation and the diversification of Member States' energy sources;

3. Effective application and enforcement of EU rules regarding market integration and energy efficiency, and striving for a level playing field for companies operating within the EU. Fair and effective competition can be achieved only by having common measures and rules. Support schemes for renewable energy, state aid and capacity mechanisms are elements that should be carefully considered, and further action may be required based upon such considerations, in order to ensure a well-functioning IEM.