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NOTE

From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	EC follow-up: Thematic debate on Strategic Agenda priorities - Towards an Energy Union with a forward-looking climate policy

This note sets out the state of play on some of the main orientations relevant to the third priority area of the Strategic Agenda adopted in June 2014, Towards an Energy Union with a forward-looking climate policy. It aims to provide the Council with an overview of progress achieved on relevant policies and to serve as a first basis for discussion on further steps required in this area.

The report presents, in a summary and factual manner, the current situation with respect to the implementation of the main orientations set out by the European Council over the past few years regarding the completion of the Internal Energy Market and infrastructure, energy efficiency, as well as energy security. On these issues, ministers are invited to exchange views regarding their assessment of progress achieved so far and the possibilities to improve implementation, both at national and European levels.

The report also includes a final section on climate which reflects the outcome of the October European Council; it is too early to already assess the implementation of those orientations, but an exchange may be timely as regards the relevant legislative calendar and the articulation of legislative work with the efforts being undertaken in a multilateral context.

Background information

The EC regularly addresses energy issues, for instance with thematic sessions in February 2011 and May 2013 and three times in 2014 including when deciding on the 2030 climate and energy framework. While the climate component of the framework calls for some reflection before any meaningful new initiative can be developed and reported it makes also sense to take stock of the energy component as, on the one hand, the 2014 deadline for the completion of internal energy market is nearing and, on the other hand, the broad priorities set by the EC (internal market, infrastructure, energy efficiency, energy security) stay largely unchanged irrespective of climate policy albeit with varying importance e.g. in reaction to external events or economic circumstances.

Internal Energy Market (IEM)

1. Based on Commission's mid-October comprehensive stocktaking many positive results have been delivered towards the completion of the IEM by 2014:

- regulatory framework is in place and largely transposed
- wholesale electricity prices declined by one-third and wholesale gas prices remained stable between 2008 and 2012
- consumers have more choice when it comes to picking an energy supplier
- cross-border trade in gas and electricity between EU countries has increased. Gas pipelines are also being used more efficiently thanks to common rules on the use of gas networks
- EU legislation makes sure that energy companies cannot exclude competitors from access to pipelines or withhold the construction of important infrastructure. EU rules also guarantee fair trading on wholesale markets and prevent price manipulation.

Further steps, mostly in the hands of Member States and regulatory authorities, need however to be taken:

- the implementation of harmonised rules across Europe for gas and electricity trading
- government intervention should only happen when secure gas flows and electricity generation adequacy cannot be guaranteed by the market
- a stronger emphasis on regional cooperation to bring faster results and to better address local needs
- consumers should become more active players in the energy market

- retail and wholesale markets should be better linked so that lower wholesale prices lead to lower consumer prices
- increased cooperation between gas and electricity European Networks of Transmission System Operators and between TSOs and Distribution System Operators (DSOs).

Other steps need to be taken to ensure the achievement of a fully functioning and connected internal energy market. In particular the European Commission supported by the Member States will take urgent measures in order to ensure the achievement of a minimum target of 10% of electricity interconnections, as a matter of urgency.

Infrastructure

2. Based on Commission's mid-October comprehensive stocktaking positive results have been delivered on infrastructure, which will contribute to meeting the 10% and 15% targets set by the October EC for interconnections:

- many missing infrastructure links between EU countries have been built or are under construction
- 248 projects of common interest have been selected last year under the 2013 Regulation on Trans-European Networks. The European Energy Security Strategy prioritizes 33 projects. In the last week of October the CEF Committee decided that 34 projects will receive EUR 674 million under the first CEF call: the bulk of the money supports gas projects in the Baltic region as well as in Central Eastern and South Eastern Europe.

Further steps need however to be taken:

- more investments in gas and electricity infrastructure including smart grids, focusing on ending the isolation of certain Member States and to ensure diversification of energy suppliers and routes and ensure market functioning. By 2020, three quarters of the EU's infrastructure PCIs should be completed.
- the 2nd list of PCIs under preparation (PCIs lists are revised every two years) will further contribute to meeting the interconnection targets and enhancing security of gas supply in Europe
- political support and commitment at regional and local level is needed in order to facilitate public acceptance and accelerate permitting procedures which are often delaying the completion of projects

- improve access to financing (e.g. public-private partnerships to increase the leverage of EU funds)
- increased planning coordination between Member States in a regional setting, with TSOs and regulators including relevant projects in the next 10-year network development plan.

Several steps are also in the hands of the Commission, with the support of Member States, as called for by the October EC:

- ensure the achievement of the 10% electricity interconnection, with special focus on selected Member States, report on possibilities of EU financing and, if appropriate, make proposals
- identification of new projects if necessary to reach the 10 % target and include them in the next list of PCIs
- present a Communication by March 2015 on how to achieve the 10 % target
- report on the objective of arriving at a 15% target by 2030.

Energy efficiency

3. Based on the Commission's assessment of last July the current legal framework, and notably the Directives on the Energy Performance of Buildings (EPBD) and on Energy Efficiency (EED), should allow the EU to achieve energy savings of 18-19% in 2020; however, the 20% target for 2020 can be reached if all EU countries fully implement the already agreed legislation. It is recalled that the October EC retains an indicative EU-level target of 27% by 2030, to be reviewed in 2020 with a target of 30% in mind.

As examples of benefits of current energy efficiency policies one could note:

- Energy intensity in EU industry has decreased by almost 19% between 2001 and 2011
- More efficient appliances like refrigerators and washing machines are expected to save consumers EUR100 billion annually – about EUR465 per household – on their energy bills by 2020
- New buildings consume half as much energy today as they did in the 1980s
- New opportunities and jobs for European businesses such as construction firms and equipment manufacturers.

The main challenges to be addressed concern:

- the incomplete transposition of the EPBD and EED

- the need to strengthen verification of national building codes and accurately inform consumers of the energy performance of buildings for rent or sale
- fuller implication of utilities in working with their customers to obtain energy savings
- the access to financing especially in the residential sector where is the largest potential: although significant amounts e.g. from the ESIF could be devoted to energy efficiency projects it remains difficult actually to mobilise these funds and to have financing institutions being willing to invest in what are often small-scale projects with long-term returns.

The next major step will be the review of progress on the Energy Efficiency Directive by mid-2016. The Commission is also invited to propose priority sectors in which significant efficiency gains can be reaped and ways to address them at EU level.

Energy security

4. All the actions mentioned under points 1 to 3 above do contribute to energy security. Besides, the October EC noted further actions, especially in relation with short term measures and emergency situations:

- better use of regasification and storage capacity
- protection of critical infrastructure
- in order to increase the EU's bargaining power in the energy negotiations, make full use of the Decision establishing an information exchange mechanism with respect to intergovernmental agreements and encourage recourse to Commission's assistance during negotiations
- strengthen the Energy Community
- use foreign policy instruments to convey messages on energy security.

In preparation of the October EC and as an effective follow-up to the June EC on energy security it is worth noting the Commission Communication on the short term resilience of the European gas system, not only as a good example of collaboration between Commission and Member States when it comes to addressing collective security challenges at short notice but mostly for its wake up call: although the situation is markedly better than in 2009 a prolonged gas supply disruption could have a substantial impact on the EU. A number of short term measures, within the existing regulatory framework and largely in the hands of Member States, can however help reduce consequences:

- countries should follow a market-based approach and avoid interventionist measures
- countries should increase energy coordination with each other as regards use of interconnection and removal of restrictions to cross-border energy trade
- responsibility should be shared between public authorities and industry through the implementation of the EU's Security of Gas Regulation
- short-term behavioural changes should be enacted to boost energy efficiency and lower demand.

In a longer term perspective, diversification of routes and suppliers, which starts at home with the development of domestic resources (fossil and non-fossil), should be pursued. The continued increase of renewables with an agreed binding EU-level target of 27% by 2030 is a major contribution in this respect, coming on top of the good progress made towards the 20% target for 2020.

Further actions for the medium term (end 2015) are noted in the Commission Communication on the results of gas stress tests indicating the need for cooperation in case of supply disruption as well as medium- and long-term ones in the presidency's report noted by the EC.

Climate

5. On October 23rd the European Council agreed on the 2030 climate and energy framework and specifically on a EU binding target of at least 40% domestic reduction in Greenhouse gas (GHG) emissions by 2030, an EU target of a share of at least 27% of renewable energy consumed in the EU in 2030 and an indicative target at the EU level of at least 27% for energy efficiency in 2030.

The EC Decision is consistent with the EU objective, in the context of necessary reductions according to the IPCC by developed countries as a group, to reduce emissions by 80-95% compared to 1990.

According to the timeline decided at the 19^o Conference of the Parties of the UNFCCC in Warsaw last year, the EU will submit its contribution at the latest by the first quarter of 2015 and urge all other Parties of the UNFCCC to do the same. In this context, it is of paramount importance the adoption of the implementation rules for the second commitment period of the Kyoto Protocol.

Later in 2015, at the 21 COP in Paris, an ambitious, comprehensive and legally binding agreement must be reached. To this effect, the 20th COP in Lima must deliver a balanced package of decisions, including strengthening the implementation of decisions taken in the past years as well as advancing work under the Durban Platform for Enhanced Action by: reaching a decision on upfront information requirements and a process to consider and analyse for Intended Nationally Determined Contributions; agreeing the key elements of a draft negotiating text for the 2015 agreement; and closing the gap in the pre-2020 mitigation ambition.
