

ENERGY SOLUTIONS ON THE ROLE OF COMPETITION POLICY IN DELIVERING THE ENERGY UNION

*Reflections from the high-level meeting with Commissioner for Competition, Mrs. Vestager
7th March 2017, 10:00-12:00, European Parliament, Brussels*

Energy Solutions Reflections

Energy Solutions reflections outline key challenges and solutions to legislation in delivering the Energy Union, condensed from the dialogue between the European Commission, the European Parliament and industry.

Reflections sum up key messages identified across national, sectorial and individual interests:¹

- 1. The European Commission Clean Energy Package proposal contains the right fundamentals for realizing the Energy Union** with steps towards a more market-based support system. Stakeholders meanwhile call for caution on technology neutral tendering, highlighting the need to make room for differences across technologies in an effort to promote the uptake of renewable energy while achieving a number of other objectives, including energy diversification, innovation and the development of a local industry and job creation. Also a higher ETS price remains a key enabler of the transition.
- 2. Consider new markets and relevant enabling environments to scale up the transition towards clean energy for all.** The energy sector is capital intensive and energy saving projects are often relative small and dispersed; whereas capital providers like institutional investors are typically looking for very large projects with recognizable risk and return characteristics. Notwithstanding it is challenging to match the demand and needs of different actors on the markets, there it is a need for new enablers including proper implementation of market rules and support to new investment vehicles e.g. encouragement to bundle energy saving projects into attractive investment objects for investor.
- 3. Current state aid guidelines are future-proof, lead to cost-reductions, are sustainable and cater for national differences.** Solutions include A) competitive tendering to progressively lower support levels for specific technologies, B) compliance with climate policies by introducing emission performance standards were discussed with regards to the pros and cons, C) national difference in e.g. tax regimes must be carefully considered before moving to opening of support schemes, D) the relation between the Euratom treaty and state aid rules could be subject to further scrutiny.
- 4. Ensure level playing field.** Marginal cost of energy efficiency compared to renewable energy should be discovered in the market, not promoting certain generation technologies through energy efficiency measures. This for example means that both renewables and energy savings as a first principle should be promoted by the right design of market rules and market based support schemes.
- 5. Put the consumer at the centre** of the energy system to activate consumers with market rules, shifting from supply to demand-driven response.

¹ Positions presented do not reflect the positions of the individual representative, but are the sum of discussions across national, sectorial and individual interests within the European Parliamentary Network on Energy Solutions (Energy Solutions), ref. final page adopted upon launch of Energy Solutions, SS2016.

Principles on the Role of Competition Policy in Delivering the Energy Union

The principles provide a guide for discussing the role of competition policies in delivering the Energy Union.

Principles sum up key prerequisites for a competitive and well-functioning energy market:

1. Restrict public interventions in the market to a minimum

Attaining the long-term energy- and climate targets should first and foremost be driven by the forces of supply and demand within the market, resting on the right regulatory incentives, which should spur the desired investments by private actors in the market. Only when it has been clearly demonstrated or with high probability can be foreseen that the market cannot deliver a desired outcome should public interventions be allowed.

2. Enforce internal market rules to ensure free flow of energy and goods across borders

An open and transparent internal market is a precondition for a competitive Energy Union. Internal market rules should be strictly enforced by the European Commission (where relevant with the assistance of national regulatory authorities and ACER) and not be left to political discussions among member states and the involved parties.

3. Ensure competitive bidding procedures are in place to maximize added value of state aid

State aid should as a general principle be granted based on open and transparent tenders, which considers differences in ownership structures of participating actors. Technology specific tendering should always be pursued.

4. Ensure services are delivered by market players

While certain services are better left to public authorities, such practice should be limited to instances where it has been clearly demonstrated that private actors under fair rules are not able to deliver the desired service.

Issues from Political Energy Solution Makers

Issues from political energy solution makers across political parties and member states address the pathway towards an Energy Union:



“The Energy Union rests on competition for well-functioning markets –to the benefit from production to consumption with energy providers facing better technologies to consumers with greater choices and better prices. The European Commission did its job – now it is up to us within the European Parliament to ensure that negotiations lead to the adoption of sound legislation in realizing the ambition of a union for also energy. We have this one chance to get it right!!”

President to Energy Solutions, Vice President to the ITRE Committee, Member of the European Parliament, Morten Helveg Petersen (ALDE).



We need to restore confidence in the internal energy market, and this requires to abolish direct and indirect public subsidies to fossil fuels and nuclear. These energy sources enjoy unacceptable privileges and this preferential treatment must stop. Phasing-out harmful capacity mechanisms is a necessity.

Member of the European Parliament and Vice President of Energy Solutions, Claude Turmes (Greens).



Member of the European Parliament and Vice President of Energy Solutions, Angelika Niebler (EPP).



Member of the European Parliament and Vice President of Energy Solutions, Miroslav Poche (S&D).



Member of the European Parliament and Vice President of Energy Solutions, Ian Duncan (ECR).

Reflections from Energy Solution Creators

Reflections from energy solution creators highlight where to set in on the pathway towards an Energy Union:



With an end to the overcapacity in the power supply, fair CO2 costs and developed grids, electricity prices will reach levels where renewable energy, including offshore wind, can soon be operated without subsidies. Meanwhile, before these conditions are reached, the further industrialisation requires technology specific support keeping build-out rate of offshore wind at around one turbine per day in Europe. Critical is a strong and reliable Governance Regulation as well as principles for support schemes design spelled out in the revised Renewable Energy Directive.



Statoil

A European Energy Union that is just and benefits consumers and investors alike must be delivered through a market oriented approach where participants are free to compete and respond to credible price signals for emissions, for energy services and for energy commodities. Second, removal of inconsistencies and barriers that undermines a step up in R&D spending, technology deployment and energy system investments should be a priority. Third, to address energy efficiency improvements the distribution of costs and benefits of the proposed legislation must address social, health and climate change issues in complementary ways.



The electricity industry is undergoing massive transformation. Complex interrelationships across the entire Electricity Value Network pose challenges to power leaders everywhere. The new age of digital is providing the means for driving efficiencies, uncovering business opportunities and better serving consumers. Public policies that support the digital transformation of the electric power sector will enable Europe to lead and ensure long-term growth in this critical industry. GE is a digital industrial company that offers superior customer outcomes across the entire energy ecosystem. This puts GE in a unique position to understand the complex interrelationships within the ecosystem, and the implications to our customers of transformations occurring within the ecosystem.

VELUX®

Our main objective is to make Energy union a true success. To achieve that State aid policies, and in particular the revision of the State aid guidelines for environment and energy, will have to play very important role. This concerns in particular market based approach when it comes to Renewables, but also other public support for sustainable energy solutions. We need to remain ambitious in our de-carbonization objectives, but at the same time assess the technological and societal potential by making focused choices where, when by which technology or measure and how we can achieve most.

ista

We believe that energy efficiency in buildings is key for reaching the Energy Union goals. Heating and hot water account for around 85 % of a household's total energy consumption. Even small changes in the tenants' heating behavior can help to increase the energy efficiency of a building tremendously. One requirement is transparency for the tenant about his / her own heat and hot water energy consumption. As one of the world's leading submetering companies, we provide corresponding, innovative, sustainable and cost-efficient solutions.

3M

The issues around effective use of energy resources and climate change are complex and interconnected. At 3M, we are focused on understanding those connections and seeking solutions that promote energy efficiency, clean energy infrastructure, and reduction of greenhouse gases. With the current aging energy infrastructure, public policies should focus on improving energy management and grid modernization. Coordinated action is needed to deploy smart grids, meters and infrastructure. Greater energy efficiency in energy transmission and distribution combines a high return on investment and allows sharing the efficiency effort between producers, distributors and end-users. As a core enabler of a competitive European

economy, investments in a well-functioning energy system with cross-border connections should be accelerated.



59% of the houses in Europe are heated by fossil fuels (gas or oil), which have an efficiency close to 90%. Helping the development of more efficient heating systems like Heat pumps which have an efficiency higher of 300%, will immediately contribute to massively reduce the CO2 emissions on heating and domestic hot water production. Unfortunately, even if the return on investment of such CO2 efficient heating systems is good, it still requires a high initial investment which is reducing the attractiveness of such solutions. A plan to support the introduction of renewable heating systems in old buildings must be set up as a priority.



Buildings are key to reach a decarbonised and flexible energy system in Europe. Firstly, buildings can reduce the energy consumption and, secondly, buildings can provide flexibility in energy demand. A key enabler of this is district energy solutions, where waste heat from electricity production or the industrial sector can be utilised to heat buildings instead of being wasted, if it is treated on equal footing with renewable energy sources. At the same time, district energy systems can easily and effectively absorb great amounts of electricity when it is needed and store it as thermal heat, if the electricity market values the flexibility.



Energy efficiency must be the first priority for the future energy market. Since 40% of EU energy is used in buildings, energy efficient buildings are a must. What is needed is a 'smart' building stock with a very low requirement for heating and cooling. This can be achieved by making the building envelope highly thermally efficient, then efficiently controlling residual demand, met from renewable sources. Buildings that have been brought up to a very high standard of energy efficiency can play an integral role in the overall energy system, as they can be used for balancing and storage thereby ensuring a massive reduction in both peak and overall energy demand.



For a well-functioning energy system, market access for the voluntary demand response and small to large scale storage is crucial. Industrial Energy Consumers can offer the flexibility potential against a fair remuneration in the short term, but the market should be prepared as well for investment in, and the realisation of, significant demand-response potential in mid- to long-term. To ensure cost-effectiveness, policy makers need to ensure risk reduction by projecting a long-term stable vision, and embedding the principles of "technology neutrality", "efficiency first" and "life cycle costing" in all legislation.



Regulatory predictability has never been more important in the energy sector than in the current stage of the transition from an energy-only market with a high degree of stability to a new energy system favoring flexibility and integrating renewables in a cost-effective way. E.ON therefore calls for a common rulebook including principles on auctions and financial support schemes with regard to renewable energy technology characteristics (e.g. cost, size, risk profile, project lead time) and national market considerations. In particular, Member States should be able to recur to technology-specific tenders to support renewable energy projects. This offers the advantage that fundamental market design principles are laid down in ordinary legislation instead of depending on ex-post state aid approval procedures, which mitigates investor uncertainty and ensures cost-efficiency for consumers.



To meet the COP21 objectives, the energy transition in the EU will require a significant transformation of the electricity from the perspective of both the end-user and the distribution grid. In 2030, 50% of the electricity will indeed come from distributed renewables, and 90% of it will be integrated at the distribution level. The Clean Energy for all Europeans package released by the European Commission recognizes the need for a shift of paradigm of the electricity system and puts forward a number of proposals going in the right direction. To succeed in this change to a smart and more efficient energy system, we call for the following interlinked issues to be supported and improved in the course of the decision making system: supporting a very ambitious agenda for energy efficiency in buildings, getting the right framework for enabling

demand-side management, allowing the development of prosumers and focusing on distribution grid.



The “Clean Energy for All Europeans” provides a framework for a European energy market better fit to handle integration of renewables. This is a good first step towards a foundation for the EU to deliver on its long-term climate objective and to maintain its renewable technology leadership. We, as the provider of the technology needed, are to make sure the transition is made in the most cost-effective way and significant efforts to reduce the cost of energy throughout the whole value chain are being done in this regard. This in turn requires public commitment that signals to the industry that there will be long-term stability for renewable energy markets. Rules for renewable energy support mechanisms will need to be clarified to ensure they can remain technology-specific. Critical is also that phase out of priority dispatch is done with very clear conditions and adequate compensation for curtailment. Third, a clear, transparent and binding Governance Regulation for how Member States should deliver towards the EU 2030 target will be of outmost importance.



Unlocking private capital for investments in low carbon solutions is essential in achieving the ambitious climate targets put forward by the European Union, and cross-sector partnerships between companies, investors and governments will be a deciding factor to scale new investments. Closing the current financing gap is an enormous challenge and requires commitment from the member states if we are to shift investments from fossil fuels to low carbon alternatives.



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Energy Solutions is a platform for developing holistic energy solutions for an integrated energy system towards a European Energy Union.

The European Energy Union is identified as the top priority for the coming years with the aim to deliver secure, affordable and sustainable energy while creating jobs and growth as well as investments in Europe.

The European society is fundamentally shaped by energy as a political issue in terms of security, competitiveness and sustainability. Ensuring security of supply while developing a sustainable and competitive energy sector requires contributions from all parts of the energy system. An integrated energy system requires a bankable energy sector. The energy sector as a whole needs to be the guiding principle when developing energy regulation.

Energy Solutions facilitates dialogue across national, sectorial and individual positions for an integrated system-approach. The integrated system-approach is to develop and promote tangible, holistic and pragmatic solutions to challenges facing industry and society.

Energy Solutions ultimately seeks to strengthen policy development within the European Parliament.