

Brussels, 12 December 2017

Dear Ministers,

The European electricity sector is committed to the Paris Agreement and has recently announced its pledge to deliver carbon-neutral electricity well before 2050. Going forward, electricity will be the key energy carrier to support and accelerate the decarbonisation of the transport, heating and other industry sectors.

The Clean Energy for all Europeans is a key opportunity to get the regulatory framework right to deliver this transition. As the negotiations progress rapidly, EURELECTRIC is calling upon you to tackle the following key elements to ensure a cost-effective decarbonisation through well-functioning electricity markets, accelerated electrification, robust governance and increased opportunities for all customers:

➤ **Renewables' framework & electrification**

The costs of renewables have significantly decreased. Reaching a more ambitious, economy-wide, share of renewables in Europe by 2030 is therefore within reach and EURELECTRIC supports such a higher share if the right framework is in place, i.e. if the functioning of electricity markets is improved to ensure a level playing field, electrification is deployed in other sectors, renewables are delivered through market-based and technology-neutral mechanisms that allow for long-term contractual agreements, overlaps with EU ETS are eliminated and permitting procedures/ public acceptance challenges are addressed.

➤ **Renewables' transport target**

The uptake of renewable energy in transport would be best supported by an enforceable fuel supplier obligation that is harmonised across Europe. A system of trading should be in place to ensure that this obligation is fulfilled in a flexible and cost-efficient manner, and electricity suppliers are exempted from the sub-obligation to provide biofuels and biogas.

➤ **Emission performance standard in capacity mechanisms**

EURELECTRIC supports the Council compromise on the scope of the EPS. We however want to reiterate that an EPS coupled with capacity mechanisms does not support cost-effective decarbonisation. We are concerned about the fact that Member States should include a provision to phase out capacity mechanisms within 4 years (Art.23.5.a). This type of stop-and-go approach cannot deliver the sufficient visibility that market participants need on their future revenues.

➤ **Capacity allocation and congestion management**

We welcome the proposed decision-making process for the reconfiguration of bidding zones. This process rightfully ensures that all available solutions for solving congestions are assessed on an equal footing before considering a potentially more impacting reconfiguration. We also support the provisions on the sharing of re-dispatching and countertrading costs, including a "polluter pays principle". This is a must to ensure that TSOs get the right incentives to maximise cross-border capacities cost-efficiently. We are concerned with Art. 14.7a, which allows TSOs to allocate part of the cross-border capacity to accommodate unscheduled flows. Even if we welcome the Council's

intention, the proposed threshold of 75% of thermal capacity for each interconnector needs clarification.

➤ **Demand response aggregation**

A stable regulatory framework providing a level playing field for all market players is key to stimulate sustainable innovation. Exempting demand response aggregators from their balancing responsibility and from paying sourcing costs is not consistent with the market principles outlined in the Clean Energy Package. We support the Council clarifications that aggregators shall be financially responsible for the imbalances they cause in the electricity system, however EURELECTRIC believes that the need to ensure the remuneration for the energy injected into the system is still not adequately tackled, as it is proposed to remain optional.

➤ **Regulated prices**

Consumers will be empowered through a combination of measures such as price signals, certified comparison tools, and easy switching. If prices keep being regulated by national authorities then the benefits brought by the Clean Energy Package will be considerably reduced. While we understand that several Member States would like to delay the phase out, we truly believe that the Directive should indicate a clear process and timeline to end regulated prices.

➤ **DSO entity**

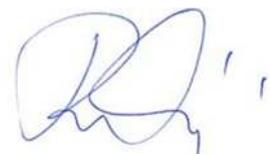
EURELECTRIC is concerned how the Council has reduced the responsibilities of the EU DSO entity, removing the responsibility for convening drafting committees for distribution codes. We strongly oppose assigning responsibility to ENTSO-E for any distribution network codes. Furthermore, we advise against defining the structure and voting process of the EU DSO Entity in the legislation as this may lead to complex and time-intensive legislative review should the need for modification arise. Such details should be established in the statutes analogue to what was done for ENTSO-E.

➤ **ACER role and enhanced regional governance framework**

An enhanced governance framework at regional and European level establishing the necessary structures and cooperation between Member States, NRAs, TSOs and market parties will be instrumental to further market integration. The Clean Energy Package should also ensure that ACER can realise the seamless cooperation of NRAs regarding especially cross-border issues. To be able to act upon objectively observed disagreements among NRAs, the powers of the directors and staff should not be undermined.

We thank you for your consideration and wish you a fruitful meeting.

Yours sincerely,



Kristian RUBY  
Secretary General

# VISION FOR THE EUROPEAN ELECTRICITY INDUSTRY

*In light of the Paris Agreement and the urgency to address climate change, air pollution and depletion of natural resources;*

*In the midst of a deep transformation driven by technology, digitalisation and more active European customers;*

*In recognition of the importance of cost-efficiency and the need to deliver secure and affordable energy while modernising our infrastructure;*

## **WE, THE EUROPEAN ELECTRICITY INDUSTRY, COMMIT to playing a key role to enable and sustain:**

- A vibrant, competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

## **WE BELIEVE THAT ELECTRICITY IS THE KEY**

- **To customer value.** More than a century after the introduction of electric light bulbs and motors, the potential of electricity continues to grow. Electricity has already brought us light, appliances, telecommunications, computers and many other tools that have enabled and improved modern living. It will soon deliver enhanced user experience through new digital energy services, enable zero-emission mobility and living comfort, and resource-efficient industrial processes;
- **To competitiveness.** The combination of integrated and well-functioning energy markets, fully optimised industrial value chains and decreasing exposure to volatility of commodities will make electricity the preferred option to power the economy and sharpen Europe's competitive edge;
- **To energy security.** After decades of dependence on fossil fuels in the power, transport and industrial sectors, domestically produced clean electricity will improve our balance-of-trade and reduce dependence on fuel imports from outside the EU. This is a much-needed shift from a resource-based to a European technology-based economy;
- **To social and environmental sustainability.** Switching to electricity will bring immediate and tangible improvements for cities, communities and rural areas in the form of cleaner air and better health. Electricity is already the most versatile climate-friendly energy carrier today.

## WE WILL LEAD THE COST-EFFECTIVE ENERGY TRANSITION

which we see as a unique opportunity. In particular, we will:

- **INVEST** in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;
- **TRANSFORM** the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;
- **ACCELERATE** the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;
- **EMBED** sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;
- **INNOVATE** to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

## WE CALL UPON POLICYMAKERS AND STAKEHOLDERS

- **To recognise** the key role of increasingly clean and climate-friendly electricity in achieving Europe's climate and energy commitments under the Paris Agreement and actively support measures that accelerate the shift towards competitively priced electricity for European consumers;
- **To promote a cost-effective energy transition** supported by a strong carbon market that delivers a meaningful price and channel climate and energy financing towards transition-enabling technologies;
- **To accelerate electrification** through smart and better regulation, and promote the take-up of clean heating and cooling in residential and industrial buildings, clean electric mobility and more efficient industrial processes;
- **To promote the digitalisation** of the entire value chain. Make smart grids a reality so as to integrate centralised and decentralised technologies, promote customer participation in a secure, flexible and cost-effective manner;
- **To ensure a well-functioning, fully integrated power market** at the heart of the European energy system, giving the right signals to attract investments, boost innovation and reduce costs, while ensuring security of supply;
- **To support a fair transition**, by actively managing social and geographical impacts, ensuring a fair effort sharing and guarding data protection, privacy and freedom of choice for customers.

**We are fully committed to playing our part and we look forward to leading this fascinating journey.**

## A Balanced Framework for the Clean Energy Transition

### A Statement by EURELECTRIC

November 2017

The European decision makers are entering a crucial stage of negotiation of the Clean Energy Package. EURELECTRIC sees an opportunity for a balanced and ambitious approach across legislative proposals, which can accelerate the clean energy transition, ensure cost-efficiency and ensure security of supply at the same time. Four elements are needed to create a balanced framework:

1. An ambitious overall framework to further reduce GHG emissions with a strengthened ETS at its core;
2. Energy efficiency and increased electrification in key sectors: industry, transport & buildings;
3. Stronger signals for new carbon-neutral investments;
4. An effective approach to system adequacy that recognises the diversity of EU Member States.

#### **1. An ambitious overall framework to further reduce GHG emissions with a strengthened ETS at its core**

To deliver on the Paris Agreement a meaningful carbon price signal is indispensable. The cornerstone of EU climate policy, the EU ETS, is a market-based quantity mechanism that sets an absolute cap on emissions. There is no better instrument to ensure that emissions are reduced in a cost effective way.

EURELECTRIC welcomes the provisional agreement on EU ETS reform that will strengthen the European carbon market and strongly urges EU institutions to proceed with its confirmation as soon as possible. We reinforce our call to Europe to take the necessary actions and bring its decarbonisation ambition and action plan in line with the Paris Agreement objectives. This is the only way to place the European economy on a cost-effective pathway to decarbonisation.

Moreover, consistency with other overlapping policies and measures in the ETS sectors such as new renewable and energy efficiency legislation will be crucial going forward. This should be ensured through implementation of a mechanism that addresses the structurally oversupplied market of EU ETS allowances.

Specifically, this means:

- Increasing the EU ETS Linear Reduction Factor to at least 2.4% at the earliest possible opportunity and ensuring a predictable and rule-based cancellation of surplus allowances from MSR.
- A more dynamic adjustment measure to be implemented in the context of the Energy Union Governance Regulation. Such a measure would ensure that any future surplus from policy overlaps will be addressed.
- A strengthened ETS needs to be complemented with a proportional increase of the Modernisation Fund of between 2% and 4% for Member States with a GDP per capita below 60% EU average.

## **2. Energy efficiency and increased electrification in key sectors: industry, transport & buildings**

Electricity is the cleanest energy carrier in the EU today. It is well on track to becoming carbon neutral. But whereas the power sector is steadily reducing its carbon footprint, emissions are on the rise in other sectors. Increased energy efficiency and use of electricity in transport, industry and heating & cooling, happening in parallel to the decarbonisation of the power sector, will be key for the overall emission reduction efforts and will indirectly apply the ETS to these other sectors.

To drive emission reductions in the non-ETS sectors, in line with the Paris agreement, the ambition level for these sectors should therefore be increased and barriers to electrification removed. When setting national strategies and measures, Member States should take strongly into account the major contribution of electrification to achieve Effort Sharing Regulation (ESR) targets in 2030 and beyond.

For the transport sector strong levers for decarbonisation are at hand. The Mobility Package represents a key opportunity to speed up its electrification which must not be missed. In the Energy Performance of Buildings Directive (EPBD) requirements for electric vehicle charging points and pre-cabling are needed.

A more systematic approach to ensuring increased electricity uptake in the non-ETS sectors is needed; including a recognition of the crucial role of Distribution System Operators (DSO) in facilitating this. Provisions to monitor and accelerate efficient electrification should be strengthened.

Specifically, this means:

- A lower, forward looking Primary Energy Factor for electricity which better reflects the changing EU electricity mix.
- Strict CO2 emission standards for cars and vans as well as separate targets for the take-up of zero emission vehicles in the Clean Mobility Package.
- Strengthened requirements for charging infrastructure deployment in buildings in the Energy Performance of Buildings Directive
- The promotion of efficient electric technologies along with sharpened monitoring of progress and provisions to accelerate efficient electrification through the Governance Regulation, in particular through the Long-term low carbon strategies.
- Increased targets for suppliers to use renewable energy in transport in the Renewable Energy Directive and the application of a suitable multiplier to acknowledge the higher efficiency of electric vehicles as compared to conventional engines.
- Accelerating the shift towards competitively priced electricity for European consumers.

## **3. Stronger signals for new carbon neutral investments**

Going forward, all investments should be directed to carbon neutral generation and transition-enabling technologies such as storage and demand response. Stronger signals are needed for these investments. A market design that values energy, flexibility and assets' contribution to system adequacy will provide, together with a strengthened ETS, the signals for a cost-effective decarbonisation.

An accelerated deployment of renewables is possible as the planned electrification of transport and other sectors will require more carbon neutral electricity. Costs of renewables have significantly decreased in recent years. Achieving a more ambitious economy-wide share of renewables at European level by 2030 is therefore within reach.

EURELECTRIC supports a higher share of renewables towards 2030, if the right framework is in place.

Specifically, this means:

- The functioning of electricity markets is improved ensuring a level playing field and including equal market responsibility for all technologies.
- Electrification is actively fostered and deployed in other economic sectors as technology is evidently making this possible.
- Renewables are delivered with market-based mechanisms that are technology open and allow long term contractual arrangements.
- Overlaps with the EU ETS are addressed.
- Permitting procedures and public acceptance challenges are actively addressed.

#### **4. An effective approach to system adequacy that recognises the diversity of EU Member States**

A precondition for system adequacy is a well-functioning market where electricity flows freely across borders, where existing infrastructure is used in the best possible way and where the market provides the right investment signals. Prices that actually reflect the electricity system situation, including scarcity prices, must be accepted in the regulatory framework.

Through the increased penetration of low/zero-marginal cost generation, downward pressure is being placed on wholesale power prices as well as on running hours for back-up and thermal plants. Where needed to ensure system adequacy for consumers, the contribution of capacity to security of supply (provided by generation, RES, storage, demand response) must therefore be recognized, and valued as an integral element of the overall market design. A consistent framework with harmonised adequacy assessments is needed for transparent, competitive, cost-effective and open capacity markets that optimise the use of available capacity and attract sources of carbon neutral firm capacity (including RES, storage, demand response) at regional level.

When addressing security of supply, due attention must be paid to the diversity of energy systems in Member States. Unnecessary costs and system constraints must be avoided and market-based solutions should prevail. Specific situations in individual Member States must be carefully considered - grid constraints, energy system characteristics and macro-economic as well as energy dependency impacts. Realistic timelines should be granted to develop alternative options in a cost-effective way.

In this context, EURELECTRIC reiterates that an EPS coupled with capacity mechanisms is distortive and does not support cost effective decarbonisation, increases costs for consumers and creates risks of security of supply and gas import dependency.

Specifically, this means:

- Removing price caps and market distortions to allow for prices to reflect scarcity and investment needs.
- Ensure a consistent framework for transparent, competitive and open capacity markets in the Electricity Regulation also open to storage, RES, demand response; avoid stop-and-go approaches.
- Endorse the introduction of an EPS requirement of maximum 550gr/kWh for new plants in capacity mechanisms with a final investment decision after 2020 as the European power industry does not intend to invest in new build coal fired plants beyond this date.
- Reject an EPS for existing plants in capacity mechanisms as this will distort the market. Member States should have the flexibility to address national and regional system adequacy specificities and ensure a cost-effective energy transition for consumers.