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Ms. Wilson attended the comprehensive yearly conference that updated attendees on the most recent developments in EU law and policy. The third liberalization package (Package) and security of supply were the main subjects of the conference. The Package is further along in the process, with the Commission expecting it to be passed by the end of the Czech Presidency (by June 2009).

Andris Piebalgs, the Member of the EU Commission responsible for Energy, “Completing Europe’s Energy Policy: what energy legacy will this Commission leave EU citizens.”

Keynote Speech.

- Climate change. With today’s 6.5 billion people, the world has reached the point of energy non-sustainability. By 2050, there will be an increase of 2.5 billion, which is an increase of 33%. Ahead is the need to increase energy and goods and services in just one generation.
- Europe needs a common energy security policy, as illustrated by recent events. Mr. Piebalgs emphasized the need for a single EU energy security policy, rather than national policies. Further, the EU should speak in one voice on international energy issues.
- The 20-20-20 by 2020 initiative requires a reduction of greenhouse gases (GHG) emissions by 20%, increasing the portion of renewables by 20% and improving energy efficiency by 20%, all by 2020.
- Regarding renewables, there is now an increase between 7-8.5%. The EU must install the same amount of capacity in renewables every year for the next 10 years. The push to renewables already has created 300,000 jobs. Mr. Piebalgs noted that the directive contains a requirement that 10% of transport fuel come from renewable energy resources, either bio-fuel or electric-powered cars.
- Mr. Piebalgs is convinced that energy efficiency should be the highest concern and will achieve the highest gains in the 20-20-20 regime. A recent Covenant of Mayors was signed by 300 mayors as of 15 Jan. 2009.¹
- The real challenge in implementing the Package is ensuring a consistent and stable regulatory regime, because no investments will be made in an uncertain regulatory environment. The EC will work for rapid results to integrate markets. Results lie with the new regulators, the detailed work of common rules, and integrated markets.
- The five-point energy security plan consists of improving the energy infrastructure and diversifying supply; external energy relations (speaking with one voice); developing oil and gas stocks and crisis response mechanisms; requiring energy efficiency measures; and making the best use of EU’s indigenous energy supplies.

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¹ http://ec.europa.eu/energy/sustainable/doc/covenant_en.pdf



- Mr. Piebalgs called the shift to carbon-free energy “the third industrial revolution,” the second being computers. The EU is working on a step change regarding research and intends to turn the challenge of climate change and energy security into an opportunity, which it has already done regarding wind. The following items comprise the EU Strategic Energy Technology Plan: identify key technologies; create a new European energy innovation governance structure (coordination of research is already under way); develop new specific mechanisms to stimulate and support European industry investments; and increase national and European energy research funding.
- The EU’s vision for 2050 is decarbonizing the EU electricity supply; ending oil dependence in transport; low energy and positive power buildings; an installed smart electricity network; and the promotion of a high efficiency, low-carbon energy system throughout world.
- In response to a question from Platts Newsletter regarding the EC’s plan for a security of gas supply directive, Mr. Piebalgs responded that the directive will be forthcoming and will address gas stocks and a better arrangement on the European level for release of the gas stocks. In some areas during the recent gas crisis, governments took steps to prevent gas flowing to where it is needed because of suspicions between Member States; the EC does not have sufficient powers to act in this kind of emotional situation. The new directive will be tough.
- In response to a question by Argus Media and the future of the North and South Stream Pipelines, Mr. Piebalgs stated that there is a need to focus on the stabilization of the main route out through the Ukraine. He wondered why there is a need to bypass and spend billions of Euros when the focus should be on the existing pipeline to ensure that it is used 100% rather than 10-15%. The monitoring should continue.

Claude Turmes (Member EU Parliament) “Energy and climate security or how to address in a coordinate way economics, energy security and the climate agenda.” “EU’S ENERGY POLICY – YES WE WILL GO GREEN.”

Claude Turmes is a well-known member of the EU Parliament for the Green Party. He has been very proactive in electricity reform and environmental issues. He is a member of the Green Party. Mr. Turmes defined the following items as key drivers in the current energy reform package: (i) levels of carbon; (ii) oil and gas reserves are being depleted (see the IEA’s World Outlooks for 2006 and 2008); and (iii) Europe is at the beginning of an investment cycle. After investment, then Europe can coast for 20-30 years; thus, the next 10 years will determine the energy system in Europe.

Seven subjects were discussed with regard to EU’s energy policy:

- Energy efficiency: is the priority of priorities, as it is the biggest parameter for the level of greenhouse gases (GHG) and renewables. The legal standards are already in existence for energy efficiency. Mr. Turmes is optimistic on the efficiency gains that can be had from buildings, as more than 40% of EU’s gas use is in buildings. Higher reliance by East European countries on district heat and biomass for heat will help avoid another gas crisis in winter.
- Renewable energies: The renewable directive is a major breakthrough. 80-85% will be done on a national basis, but European companies will invest cross-border. Massive wind investment, offshore in the North Sea, Baltic and Mediterranean may be more harmonized in cross-national systems. The economic recovery plan will give the offshore industry an allocation. Scandinavia will integrate its electricity and renewables markets with the European market. There are two new partners/actors in the sector – building companies in the power market (energy autonomous buildings will be attractive) and cities and regions in



Europe. Beginning in February, 2009, 300 mayors will gather in Brussels to subscribe to the Covenant of Mayors.

- **Grid:** Infrastructure is key for trade and renewables. Regulators worked for the last 10 years run the system as cheaply as possible; now they must regulate to get the right investment in electricity and gas infrastructure. Regulators will need a new political mandate – more than just running the system cheaply: they need to be more than national, also looking to their region and the entire European grid.
- **Gas:** Mr. Turmes thinks that gas is extremely important for the energy transition and hopes all of Europe follows Spain's lead to rely primarily on renewables and gas. Europe needs better storage that can quickly release large quantities; the mandatory emergency supplies for gas and swing capacities can be a weapon against the spot market, recast through the security of supply directive. Ukraine did not pay a market price and makes an excessive use of gas; thus, the energy policy in Ukraine needs to be stabilized. Efficiency in buildings dramatically reduces quantities of gas required.
- **Coal:** Turmes predicts that coal will be sold by full auction or we will see the end of conventional coal. 2030 will be the end of coal plants because no one will finance them.
- **Nuclear.** The new Finnish reactor is delayed and will not be built cheaply. Mr. Turmes does not believe in nuclear revival in Europe.
- **Electro-mobility:** To get cars off of gasoline is the new challenge. To illustrate how much electricity is needed, France now has 6 TWh; and to fully run all cars 20-30 TWh is needed.

SESSION II THE INTERNAL ENERGY MARKET

A Representative DG TREN presented on “The final agreement on the third Internal Market Package, remaining challenges.”

- **Procedural Background:** The Package and the proposed directives were issued in September, 2007; the European Parliament issued an opinion in a plenary vote; the European Council issued a “Common Position” on 1-9-09, and the European Commission filed comments on that position and the proposed amendments from the Parliament on 1-12-09.² Overall, the EC thinks there can be a compromise between the European Council and Parliament.
- **Unbundling.** (i) Regarding unbundling, the original proposed Package proposed ownership unbundling (OU) as a preferred option, with an ISO alternative; (ii) the European Parliament's position was a clear preference for OU in the electricity sector although the Independent Transmission System Operator (ITO) was approved as an option for gas; and (iii) the European Council's compromise position was the addition of the ITO as a third alternative in both electricity and gas. Although DG TREN thinks that the ITO may be included in the final directive, it anticipates problems with the ITO option because of the strict detailed measures to insure unbundled status. In the future, the key unbundling issue will be whether Parliament sticks to its preference for ownership unbundling in electricity.
- **Agency for Cooperation of Energy Regulators (ACER).** The European Parliament inserted numerous monitoring tasks for the EU level regulator. While it was originally anticipated to have 40-50 people, the monitoring changes of the Parliament mean that it will need more. Its location has not been determined.

² Gas: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52008DC0907:EN:NOT>
Electricity: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52008DC0906:EN:NOT>



- Forecast Implementation. The Parliament second reading will be completed in April 2009. DG TREN anticipates the Package entering into force around September 2009 and implementation required the beginning of 2011.

Lord Mogg, Chairman of ERGEG and CEER, Regulator of Great Britain on “ACER” (The Agency for Cooperation of Energy Regulators)

- There will be a director of ACER, who is responsible to the Board of Regulators, which will make decisions by majority vote. The Board of Regulators will have decision-making authority in individual decisions based on EU guidelines, on cross-border issues when regulators ask or need assistance from the Agency, and on Directive Article 22 exemptions of X-border infrastructure.
- Development of the Codes. There is a debate as to the conditionality of grid and market rule codes. Regulators think legally enforceable codes are needed, although it is important to actively seek involvement and collaboration of ETSO, GTI, TSOs and stakeholders. Lord Mogg thinks the Agency will be up and running towards the end of 2009 and into 2010. Because there won't be specifically prescribed areas to regulate, the national regulators are now working on rules and having deep discussion following consultation within the context of CEER and ERGEG.

Daniel Dobbeni, Pres. ETSO and ENTSO-E (Belgian TSO). “ENTSO-E, a new opportunity to make real progress in creating a true Internal Energy Market.”

- The TSOs are not waiting for passage of the Package to start working on its implementation. All TSOs CEOs signed a letter of intent to form ENTSO-E to enforce cooperation between TSOs, enforcing cooperation with regulator (today ERGEG and CEER, soon to be ACER). ENTSO-E as a new company has been incorporated. There are 42 members from 34 countries, and ENTSO-E will work on a majority decision-making basis. ETSO will wind up by the end of June 2009.
- Investment of €500 billion in the networks is planned. Unfortunately, regulation that is occurring on a national basis is still working day-to-day, ensuring least cost investment; a change is necessary to invest the large amount of funds needed in the network.
- ENTSO-E's current objective is to get a clear mandate that includes clear role definition and responsibilities. As currently drafted, the Package provides that ENTSO-E will draft network codes; develop a 10-year network development plan; develop annual generation adequacy outlooks; develop network operation tools; submit an annual report and an annual work program. The company needs elaboration of what these things mean.
- The job is not only drafting grid and market codes because the change to increased renewables means that a different power system is required. The transmission system needs a lot of innovation to be sure that the renewables target can be accommodated. It is important to note that how windmills are connected will influence the network for years.
- Mr. Dobbeni cautioned against analysis paralysis: he said that, “In Europe, we tend to wait until we have the ultimate solution that will last for the next 1000 years before we even try it.”

Round Table Discussion. “Completing the Internal Energy Market.”

Introductory Presentation by William Webster, formerly with DGTREN, now with RWEpower. It was emphasized that the Package and 20-20-20 by 2020 approach will result in increased expense for competitive markets due to cost of renewables, cost of carbon capture, cost



of nuclear, which translates into higher prices. He stressed that policy papers skimp over the cost to consumers of these new policies.

Christopher Jones, who is now Head of new Renewables Department at DGTREN, led the round table and asked the panel members questions concerning:

- Unbundling, with Mr. Jones stating that it looks clear that the choices regarding TSO unbundling will be ownership unbundling and ITO. Although Parliament wants ownership unbundling, the Council has a strong view.
- Regulated Prices. People complained both that artificially low regulated prices prevent new competition developing and infringement proceedings should be taken, while others complained the Commission was taking infringement action against these prices since the customers should be protected. Mr. Webster commented that what is needed is vulnerable customer support to get rid of the idea that electricity companies are the implementer of social policy.
- What can be done now to achieve the 50-80% reduction in carbon by 2050? The responses were interesting:
 - Secretary of Eurelectric (industry) stated that all options are needed, including carbon capture and storage (CCS), renewables, nuclear, demand side management, intelligent use of electricity in transport.
 - Enel (Italian TSO) stated that without nuclear, the goal will not be reached. Enel is currently studying six sites for nuclear with the government. In addition, heavy investments into networks for smart grids are paramount.
 - Distrigas (Belgium) stated that in light of the recent gas crisis, investment in pipelines is paramount. Balance between interventionism and the market must be achieved in gas.
- What should be the EU priorities for energy security from a practical point of view?
 - DGTREN stated that during the recent gas crisis, transparent information on the gas flows in Europe was unavailable, so transparency on this information is needed. Also, there were suspicions that stocks went to some states but not others. A further directive on security of supply for crisis situations is needed that clearly defines what happens in the first day, first five days, first ten days, etc.
 - Austrian regulator Walter Boltz stated that three main things should be done: (i) There is too little information in the market to act quickly, and a lot of additional coordination is needed between TSOs who never planned for a gas supply dysfunction. For example, his regulator called people in the Balkans in the middle of the night who had no clue what was happening. (ii) Better emergency planning is needed, e.g., on the third day of the gas crisis, the Netherlands was still exporting to the UK. (iii) Routes should be diversified; surplus infrastructure that probably wouldn't be built on a commercial basis should be built. Need more pressure on actors who block the integration of markets. We have been very tolerant in Europe regarding countries that block access to storage.

SECURITY OF SUPPLY AND AN EMERGING EUROPEAN EXTERNAL ENERGY POLICY.

Roland Kobia, Member of Piebalgs Cabinet. The highlights from Mr. Kobia's presentation were:

- Energy Security is very affected by the global economic crisis because there is no money for any kind of construction of the network. According to the International Energy Agency, major investments needed, 22 trillion\$ in supply infrastructure needed by 2030.



- Stronger parameters for behavior are needed. For example, there has been short-sighted investment behavior on the part of countries whose national self-interest is their top priority, and some countries inappropriately have made bilateral supply deals.
- EU's being dependent on Russia is not the problem, because Russia needs the EU as a market as much as the EU needs Russia's gas. The problem is the structure of the supply arrangements.
- There is a growing imbalance between the increasing EU demand (electricity 1.5 to 2% per annum) and the increasing dependence on imports from 50% to 70% in 2030.
- A common EU external energy policy is necessary, where the EU speaks in a single voice. In the recent gas crisis, the Chairman of the Commission was agreed to be the only speaker with Russia/Ukraine. In response to a question from the press, Mr. Kobia explained that the EU hesitated in getting involved in the Russian/Ukraine matter at first because the EU wasn't a party to the contracts; only when the problem turned political could the EU begin helping. This is because when the two parties had no willingness whatsoever to talk, if the EU had intervened, the EU would have given the parties the ability to blame the problems on the EU if things did not go right.
- Mr. Webster of RWEnpower commented again that nothing has been mentioned about financial considerations. He suggested that balancing markets provide for a financial penalty for not injecting; this will result in much more storage.

COMPETITION POLICY AND ENERGY MARKET

Much of the second day was devoted to competition policy, but there was an interesting discussion of regulatory pricing as follows:

- **Robert Klotz, Hunton & Williams**, Brussels, pointed out that the expectation that liberalization leads to lower prices should be scaled down. The customers want a low price; however, particularly with the new policy, prices will go up.
- **Hans Gurnfeld, President of IFIEC Europe**, pointed out that prices have increased 20% since 1995. Still, the current electricity price is below what is needed to invest the new equipment necessary. Regulated prices are artificially low for political reasons. DG COMP should look into this issue.
- An industrial consumer from the audience complained that there is no focus on prices by policy makers.
- E.ON stated that either private business should be incentivized to invest or the State should make the required investments.