

CEOs contribution for the European Council of June 26-27, 2014

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In view of the coming European Heads of State and Government Summit where crucial political settings on Europe's energy future will be discussed, CEOs of the largest energy companies that make up the "Magritte Group"¹ reiterate the need for comprehensive and timely decisions and actions on the 2030 energy and climate framework.

Weaknesses of the current European energy policy

As early as in May 2013, the CEOs raised the alarm about the state of the European energy policy and energy market. They underlined that without change, the current policies would threaten security of supply, increase CO₂ emissions (at least in some Member States), and disincentivise investments in the sector while contributing to high energy bills for citizens and industrial customers, challenging European competitiveness.

This worrying diagnostic of the current situation emphasizes the need for policy reforms to set Europe's energy policy on the right track. In particular it is very important to evaluate the 2020 energy and climate framework in order to build a much more balanced and robust package for 2030, targeting sustainability, climate, as well as competitiveness and energy security. A robust climate strategy is a pre-condition to take into account and mitigate the consequences of current external factors, such as the political crisis in Ukraine.

Areas of actions

a. Under the responsibility of the EU institutions

The European Commission should provide a strengthened European policy framework that would allow a stable, stronger and more harmonized European energy policy across Europe. This would enable greater stability and regulatory visibility to provide customers with access to clean and reliable energy at a competitive price. Without a strong common European framework, national policies may prevent the integration of the internal energy market and distort competition.

CEOs believe that current discussions related to the Ukraine crisis should not distract from the necessary decisions for the longer-term, of which reaching an early agreement on the 2030 energy and climate policy framework is a priority. Indeed, it is crucial to depoliticise the current energy security debate (biased to natural gas supplies) and to stick to market-based principles so as to achieve a fully competitive internal EU energy market. This would also avoid affecting seriously the potential of gas to accelerate the transition to a low carbon economy.

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The current political crisis has not changed the reasoning behind our request to opt for a single binding 40 % CO₂ target as a key element of the 2030 energy and climate framework. A rapid and well-grounded decision on the greenhouse gas reduction target for 2030 together with a speedy reform of the ETS through an efficient market stability reserve, followed by other ETS structural measures will spur energy efficiency and the deployment of renewable energies in a cost-effective manner² and hence work positively towards reducing EU's energy dependency.

CEOs also believe that it is the responsibility of the Commission to ensure the fast implementation of a well-functioning and interconnected internal energy market. Only an open market with rules that both enable and ensure fair competition offers the greatest business opportunities to energy companies, and it offers the best service, security of supply and competitive prices to consumers. Furthermore, to become an integral part of the European energy mix, progressive market and system integration of renewables has to be enhanced. The Energy and Environmental Aid Guidelines published by DG COMP have set out a start to set the frame for a competitive energy market for all technologies.

However, companies wish to address a **serious concern related to the Network Code on tariffs**³ that will discriminate operators bound by long term contracts. That's why we ask for a one-off right for network users to reset existing capacity contracts at interconnection points to ensure a level playing field between all network users.

Therefore, in the context of the June European Summit, the **CEOs strongly encourage Heads of State and Government to reinforce their commitment to agree on the 2030 energy and climate framework, based on the Commission proposal in January,** in the European Council meeting in October at the latest. It is crucial that the June European Council can already show clear progress on this package. Postponing decisions will be a risk for industries and citizens in terms of rising energy costs, lacking investments, loss of competitiveness, lower security of supply and a delay in the transition towards a low-carbon economy.

To conclude, CEOs are expecting the EU institutions and member states to reform Europe's energy and climate policy for it to better respond to following key priorities :

- Make energy prices more competitive for European consumers ;
- Achieve a more fluid, transparent and interconnected internal market while ensuring an EU-wide implementation of energy market rules in all Member States and infrastructure deployment plans avoiding retroactive measures ;
- Restore the Emission Trading System as the flagship for the future climate and energy policy ;
- Achieve a global climate partnership with Europe's global competitors in international climate negotiations ;
- Adjust future public support for new renewable energy sources so that they can compete and be integrated progressively into the energy system ;
- Support European leadership on low carbon including via an ambitious Research, Development and Innovation policy ;
- Aim for a diversified cost-effective low carbon energy mix ;

² As recognized by the Commission's impact assessment on a 2030 climate and energy framework.

³ Ref.: Joint statement from EFET, EURELECTRIC, EUROGAS, and OGP to the Madrid Forum on inclusion of a capacity reset mechanism in the Tariff Network Code.

- Multiply energy routes for the import of cost-effective energy sources and enhance more efficient and low carbon indigenous energy production ;
- Remunerate available and qualified capacities as a service provided to ensure security of supply for the energy system (backup generation, demand-side, energy storage) ;
- Ensure that the integration of distributed energy resources is implemented in a way that avoids putting network infrastructure at risk, as these infrastructures are and will be essential for the reliable operation of the electricity system.

b. Under the responsibility of the market

It remains the companies' responsibility to conduct commercial relations with suppliers, although it is important that they are supported by EU and national dialogue at the political level.

In the context of the current political crisis, some ideas have emerged within the EU on security of supply and energy dependence, such as grouped purchasing and unified import prices. CEOs would particularly like to caution against this kind of approach. EU internal energy market legislation and competition law seek to create a secure and competitive market by enabling companies to buy and sell energy freely as separate entities, using their market expertise and responding to business opportunities quickly as they arise. Energy purchasing should therefore continue to follow established commercial practices, respecting the requirements of the EU internal market rules and competition law. Although there could be occasions where economies of scale may offer some benefits in the purchasing of energy, any mandatory concept of grouped purchasing or unified pricing would distort the market, risks lowering security of supply and making the system less efficient. Also, grouped purchasing will go against the final goal of the third package: a liberalized market. Of course if suppliers try, for political or other reasons to distort the market, appropriate remedies should be envisaged.

Companies already contribute to diversification of sources as well as the routes that imports take to reach Europe.

In addition, there is still interesting potential for various forms of indigenous energy production in Europe, both conventional and unconventional, which should not be left aside if production can be achieved at the highest environmental standards. As regards diversification of supply routes existing gaps in gas infrastructure need to be closed.

Companies are fully committed to take part to the energy transition. Under appropriate market and policy conditions, including a supportive R&D framework, we intend to invest substantially in low-carbon existing, future, and not yet mature energy technologies where needed such as: carbon capture and storage, energy storage, power to gas, biogas, distribution grid modernization, shale gas exploration (in Europe), alternative fuels infrastructure for transport, and not yet mature renewable energies. This is also the reason why we call for a reinforced EU ETS which will help fostering the development of these technologies and their competitiveness in the low carbon energy transition⁴.

