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***European Tribune response to the
Public consultation on the Green Paper "Towards a Secure,
Sustainable and Competitive European Energy Network"***

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1. General response to the public consultation

We welcome the Commission's realisation that the European Union has to take a pro-active approach to energy networks. However, we believe that a more explicit recognition of the role of public authorities is needed for the EU to fulfil its policy goals.

1.1 Competition

One of the main aims of EU energy policy was to get "competitiveness" by setting up an *undistorted market*, in the hope that the "market will deliver" certain desired improvements; coupled with adjustments and incentives where the market didn't deliver. In its Communication on energy policy, the Commission writes the following:

An internal energy market has been developed on a Community level to ensure that consumers have the opportunity to choose a supplier, at a fair and competitive price. Nevertheless, as highlighted by the Communication on prospects for the internal energy market and the inquiry into competition in the gas and electricity sectors, there are obstacles which continue to prevent both the economy and European consumers from fully benefiting from the advantages of opening up the gas and electricity markets. Ensuring the effective implementation of the internal energy market thus remains crucial.

This view seems compelling, until one thinks about what "competition" really means. "Competition" is not a self-contained notion, it doesn't occur in a vacuum.

If we think of sports and games, we recognise that a competition is *defined* by its rules. If rules are changed, it's a different game, in which people with different abilities will be successful, using different strategies. If we think of biology, we recognise that the fitness of competitors is defined by the *environment*, that is, how well adapted they are to a *specific* niche at a given time.

The same picture applies in the economy. Competitiveness is not an absolute, nor an inherent trait of a market. It is relative and relates to the players that exist within a given market. Markets themselves don't exist in a vacuum. There is a broader social environment that sets the framework for a market. Norms and rules are key elements of this framework. This implies that one of the **driving forces** of a market is regulation.



1.2 The aim of regulations

That energy market regulations define the market logically means that the bodies responsible for setting regulation have a **primacy** in setting energy policy – regardless of whether or not they are aware of this, and set out deliberately to achieve policy goals.

Setting up rules merely with a view to establish a mistaken sense of 'undistorted' competition, or to 'enhance competition', or to cater to the wishes of market players, is not a **conscious** energy policy worth its name, but an *abdication* of the power to set energy policy consciously.

If public authorities have specific energy policy goals – be they sustainability, security of supply, long-term investment in networks, *or* lower prices –, then they shouldn't wait for private companies to step up, and think of extra incentives as supplement, but think of setting up markets where players striving towards those goals thrive and those with different aims don't.

As indicated in the Green Paper, EU energy policy emphasizes the creation of a stable regulatory framework. Such stability might serve an aim to stimulate long-term investments. However, it is not the sole possible regulatory factor for such investment, and market players' appeals for stability shouldn't block sweeping changes when these are needed to fulfil the goals of the present or a future updated EU energy policy.

1.3 Unbundling

The competitiveness of an energy producer is influenced by many factors regulators may set, such as: start-up costs vs. fuel costs, the financial conditions for start-up costs (interests, length of repayment period, depreciation, the discount rate, guarantees), price stability, taxes, geographic constraints (zoning laws), grid access rules; and the level to which certain costs are externalised, such as pollution, or access to and compatibility with existing infrastructure.

Focusing on energy networks, EU energy policy foresees an unbundling of networks and production, with the aim of creating an 'undistorted market' between producers. However, this policy takes too narrow a view of the issue at hand.

On the one hand, if the real intent is, for example, to promote new producers of renewable energy, it would be better to drop the illusion of the 'undistorted market' and facilitate grid access and integration with more explicit regulation.

On the other hand, networks and production aren't independent. For the provision of security of supply to end customers, one needs both proper networks and proper load management – and the two are interrelated. Producers (and colluding energy authorities) can keep grid efficiency low (and bar access to newcomers) through bad load management.



1.4 Beyond markets

It is a fundamental mistake to assume that a positive rate of return is always a sufficient condition for a project to attract investment.

There is a general conflict between security of supply and long-term investments on one hand, and profitability for companies and low prices for customers on the other hand. Security of supply requires redundancies, long-term investments need long periods of time; while profitability calls for cost-cutting, including the elimination of idle capacity.

This fundamental conflict can be mitigated by measures like setting explicit requirements on investments and redundancies, or setting minimum prices. Alternatively, public authorities may take a more direct approach.

The primacy of public authorities over energy policy also involves the decision over what parts of the energy economy are to be turned into a market. Thus, it should not be beyond the scope of EU energy policy to consider maintaining the ownership and operation of energy grids, or the construction and operation of certain load balancing plants, in the public hand.

Even in such a case, though, the interest of players on marketised parts of the energy economy in off-loading certain costs on the public-owned part should be considered. This particular problem of externalities also exists during a marketisation process.

2. Response to the questions on network policy

Question 1:

What do you consider to be the main barriers to the development of a European grid and gas network? How far can they be addressed at national/regional level, and when should the EU act?

The main barrier to the development of a European grid is the lack of a strong and well-financed public initiative on the basis of long-term plans. Energy policy should not follow developments, it should direct them. For example, TEN-E should **not** be market-driven: rather, energy policy should drive markets. Neither regional, nor national, nor EU-level policy should be dependent on advice and solutions from established utilities.

The EU should act directly on cross-border lines, and get involved in setting goals for national and regional policies, in particular in line with the 20-20-20 objectives.

For example, in Hungary, the energy authority capped the total capacity of renewables under a feed-in



law at a very low level, because ostensibly the grid won't sustain a higher grid penetration. The EU could and should counter-act such decisions by bringing in the best load management experience and expertise from other Member States (like Denmark) to perform an independent audit. It may also be necessary to pursue new EU regulations to make local energy authorities' cooperation on such advice a requirement.

In its interventions to achieve the 20-20-20 objectives, the EU should be fully aware that established producers stand to lose market share. The EU should be willing to face eventual confrontations.

Question 2:

What circumstances justify an EU intervention in local planning disputes related to energy infrastructure? In those circumstances, what should the EU do?

Local planning disputes can become a matter for EU policy when EU policies that have direct relevance towards planning are affected, e.g. Natura 2000, the Directives on environmental impact assessment, the 20-20-20 targets, or future regulations as suggested in 2.1; or if the planning dispute has a cross-border element and relates to a TEN-E project. Local planning disputes are otherwise an issue for the national government to work out. It has to be kept clear that these disputes are not legitimate grounds for failure by national governments to meet EU targets such as a national renewable energy target.

When a local planning dispute threatens to delay a TEN-E project, the EU Commission should put pressure on the national government and try to clarify the project to local communities. The energy coordinator mentioned in the green paper may be a good model.

The EU should spend much more effort to prevent local planning disputes by linking up impact assessments to involve local communities at an early stage in TEN projects. To that end, more funds should be allocated for impact assessment in DG TREN.

Question 3:

Is a more focussed and structured approach to research and demonstration relating to European networks needed? How should it look?

Research and demonstration projects should be targeted specifically towards the operation of a European electricity grid with a high share of renewable energy. This implies directing funds primarily towards storage, load management, local generation and changes to the electricity grid.

Question 4:

What do you think is the most important activity for the EU in network development?

The immediate top priority for the EU is rapid expansion of the TEN-E network through co-funding. Priority should be given to electricity networks. Funding for TEN should be enlarged through an increase in the general budget of the EU, shifting funds within the EU budget away from agriculture and fisheries, and utilising money left over in the budget.



At policy development level, the top priority should be given to a complete re-focusing of regulatory and funding measures on projects that work towards, or *beyond*, the 20-20-20 targets.

"Competitiveness", without qualifications as to what this competitiveness should accomplish, is not a sensible goal for network development.

Question 5:

Should the EU be more involved in facilitating infrastructure projects in third countries? If so, in what way?

Facilitating projects in third countries runs counter to the objective of energy independence, and improves energy security little when supplies are tight globally and there is no interlinked consideration of demand.

If, as the Green Paper states, energy imports are set to rise under almost all scenarios, then the EU should aim its limited resources at making one of the few other scenarios true, rather than further facilitating import dependence. For example, the gas supply security of Central and South-Eastern Europe would be better served by a larger-scale building insulation programme, even without added gas storage capacity, than new multi-billion-Euro pipelines to supplies with questionable capacity. This would also further the EU's 20-20-20 goals on climate change.

Thus, even in cases when the EU's involvement is requested by Member States, priority should be given to electricity networks that transport renewable energy, as in the DESERTEC concept, over gas and oil infrastructure.

3. Response to the questions on TEN-E

Question 6:

What sort of support should the EU provide to developers of new energy networks to have the greatest impact, considering that resources are limited? Is the approach of TEN-E still relevant? How can the EU help improve the conditions for investment?

If the EU's own resources are limited, the most effective approach would not be support to developers, but some sort of *requirement* to develop networks (utilities forced to spend from their own resources or some form of tax). One example would be a requirement for grid operators to provide grid access to renewable energy sources. Limited resources could be spent more effectively if they were focused strategically on the electricity network. The desire of the EU to expand the scope of TEN-E to oil and the current focus on international gas pipelines in TEN-E are counterproductive in that context.



Question 7:

In view of the proposed revision to the TEN-E guidelines, how can the EU improve the focus, effectiveness and impact of the TEN-E policy within its existing budget?

The EU should drop the limitation of wanting only market-driven TEN-E planning (planned revision No. 3).

The level of funding for TEN-E is inadequate, but the EU could still allocate the resources with a greater impact if it focused more clearly on the electricity network and left desired expansion of the gas network to the Member States, with the EU coordinating regulatory requirements for storage and solidarity provisions.

Question 8:

Should TEN-E be extended to oil infrastructure? Should it also be extended to new networks for CO₂, biogas or other networks?

On oil, the EU should not waste its limited resources on facilitating further import dependence. The EU should attack this issue on the demand side.

The development of CO₂ sequestration infrastructure and other new infrastructure should not be supported by TEN-E. The EU needs to focus its resources on the electricity network with a view to enlarging the capacity for renewable energy. In this area, the EU can make an important and proven contribution.

New networks should be monitored and studied. There is also a role for the EU in the area of research. However, a European contribution to new network infrastructure only becomes relevant once such networks, and the facilities they serve, are actually developing, and a need for European coordination thereby arises.

Question 9:

Do you have views on, or suggestions for new priority projects which the EU should give backing to?

Priority should be given to electricity grid projects.

Of those possible priority projects listed in the Green Paper, we see no need for EU support for a Southern Gas Corridor or LNG. In the gas sector, too, the EU should attack the issue on the demand side, rather than facilitate further import dependence.

Specifically, the focus on Nabucco as a potential alternative to Russian gas makes little sense, given that the only credible supplier of gas for the pipeline in the requisite volumes (a key requirement to get it financed) is Russia.



In the short term, without increasing import dependence, the worries about over-dependency on Russian gas in Central and South-Eastern Europe could be met by building extra storage capacity, and connections to these countries from Western Europe (so that countries that do have access to North Sea and other suppliers can help those that don't). However, there is no need to make this a priority, and in the long term, again, the best policy would be to help these countries move as much as possible away from gas as a primary source of energy (via energy efficiency and the development of renewables).

Question 10:

Would it help TEN-E/EU to gain more impact and visibility if it was turned into an operational security of supply and solidarity instrument?

TEN-E needs to be reformed alongside the stated goals, but what matters is content, not re-branding. If the policies that are set deviate strongly from what the public wants – be it the EU-wide public or the local public in areas affected by the new projects – it may even generate negative publicity for the EU.

Question 11:

What additional EU measures beyond those mentioned in this Green Paper would help secure a sustainable infrastructure for the EU?

We reiterate that the EU should

- consider the issue of load management in parallel with grid development, and even on existing grids, establish the means to facilitate the relaying of good experience (in particular on the integration of renewables with high grid penetration);
- consider regulatory measures at the level of requirements on market players, one priority being a requirement for grid operators to provide grid access to renewable energy;
- consider redirecting funds from other fields to TEN-E projects.