

Dear President Teysen,

Dear Vice Presidents Mexia and Proglia,

Ladies and gentlemen,

I am pleased to be here in London today and I would like to thank you for the opportunity to address current and future challenges for Europe's energy policy. Many of these challenges are already the subject of this conference. You are discussing the right questions:

- who is financing the energy transition?
- will the market approach survive the transition? and
- what is the right balance between competitiveness, affordability and sustainability?

And you are absolutely right in identifying the question of trust as the central question for the future of power and energy in Europe. This is true for our internal energy market and it is true for the issue of energy security.

Energy and the security of its supply are fundamental to Europe's economy and the living standards of its citizens. Currently all eyes are on developments in the relations between Ukraine and Russia and the implications on our energy security. In this context, there is a broad recognition that we need to move fast to reduce our dependence on external suppliers. To do this effectively there is no alternative - we need a quick, decisive and coordinated EU approach.

That is the main message that I want to pass on today, with a particular reference to challenges for the electricity market. But before I turn to this I first would like to address the Commission's recently adopted European Energy Security Strategy, in the context of our continuing negotiations with Ukraine and Russia.

Ladies and gentlemen,

Ukraine is a major energy partner of the EU, and not simply as a transit route for energy imports. Given the difficult situation in the country, the EU has been helping Ukraine to stabilise its economy and finances. In this period of upheaval, the EU is encouraging political and economic reform to support inclusive development for all Ukrainians.

We are also working closely with Ukraine to push forward the reforms in the energy sector in line with its commitments as a member of the Energy Community, of which it currently holds the presidency.

These efforts include a major reform of Ukraine's electricity sector. The first concrete steps were taken last year with the new law on the liberalisation of the electricity market. But clearly further work is necessary for Ukraine to meet its commitments and fulfil the requirements of the Third Package. In this context, I would also urge Eurelectric to consider what they could do to help this reform process move forward more rapidly.

Of course the current situation in Ukraine also has potentially far-reaching consequences for the EU's energy sector.

Over the past months, I have been engaged in trilateral talks. With the Russian Energy Minister Novak and Ukraine Energy Minister Prodan, as well as Gazprom and Naftogas Ukraine, we have held several meetings

with the objective of solving the outstanding issues related to the gas transit to and via Ukraine.

A technical level working group has also been convened to further examine the acknowledged debt and payments, the issue of price and volumes and whether there is sufficient gas in storage so that supply in winter is ensured

They are also looking at a reform of the gas market, a modernisation of the gas transit system and obtaining more transparent data on gas supplies (including on what arrives at the Russia-Ukraine border, gas storage levels in Ukraine, consumption levels in Ukraine, and transport to the EU at the Ukraine border).

Some progress has been made in the discussions and steps have been taken to build a degree of trust. Ukraine has made a payment on undisputed gas debts of the past. This is a step for the next phase of the discussion, where we are looking to negotiate the gas price for the future. This should not be a purely political price. It should be a price that is not out of line with the market.

Prompted by the current geopolitical environment, the March European Council put a strong focus on security of supply and invited the Commission to study the EU's energy security in depth and develop a comprehensive plan for the reduction of our energy dependence by June.

Last Wednesday, Commission presented the European Energy Security Strategy. The Strategy is accompanied by an in-depth study of European Energy Security.

The Strategy proposes a number of measures for the near term and mid-to long term.

For the coming winter, our **immediate action** must focus on the most vulnerable Member States – those that are dependent on a single gas supplier. In such areas of Europe, we need to enhance our gas storage infrastructure – for instance by making full use of Latvia’s storage capacity to the benefit of the Baltic region. We can further develop reverse flows, following the successful example of the agreement between Slovakia and Ukraine. We should take advantage of our ability to import Liquefied Natural Gas. And we must work to develop security of supply plans at a regional level.

In light of the risks of supply disruption this winter, our strategy calls for the launch of energy security **stress tests**. Based on their results we can devise contingency plans and focus our work on any necessary back-up mechanisms. These include:

- increasing gas stocks,
- developing emergency infrastructures such as reverse flow option;
- decreasing gas demand via fuel switching -in particular for heating- and
- measures to reduce energy demand in the very short term.

Another short term measure to decrease Europe’s energy dependence could be pooling parts of the existing energy security stocks at EU or international level into a virtual common capacity reserve – for instance under the International Energy Agency.

To enhance our energy security for the medium- and long term, Europe must rely above all on a better functioning and a **more integrated energy market**. The completion of the internal energy market is therefore crucial. Projects to join up energy islands should be accelerated to ensure delivery

of the interconnection target of at least 10 % by 2020. By 2030, Member States should be on track to meet a 15% interconnection target.

A key element of our Security Strategy is the **diversification** of external supplies – in particular with regards to gas. While the EU will maintain its relationship with reliable partners, it will seek ties to new partner countries and supply routes, e.g. in the Caspian Basin region by further expanding the Southern Gas Corridor; by developing the Mediterranean Gas Hub and by increasing LNG supplies. The Commission now plans to work with Member States to increase transparency at the EU level regarding the security of gas supply and explore how the reporting of price information can be further developed.

Reducing the amount of energy we consume will also be important to our medium and long-term strategy. We must ensure that the EU's **energy efficiency** policies are implemented rigorously and promptly – in particular the directives on Energy Efficiency and on the Energy Performance of Buildings.

Boosting Europe's **indigenous** energy production is another means to reduce our import dependence. In this context, shale gas also has a role to play and should remain an option.

Ladies and gentlemen,

Increased energy security in the medium to long term is also intrinsically linked to the 2030 Framework for climate and energy.

In addition to providing energy security, a clear and stable European energy policy framework gives Member States the best opportunity to access sustainable, affordable and competitive energy supplies.

The 2030 Package defines our vision in the years to come. And I would like to thank Euroelectric for the good partnership over the past months in this endeavour. I hope that we will have a clear orientation by the European Council in October and a legal decision in spring next year.

The main pillars of the package are:

- an ambitious target for domestic greenhouse gas reductions of 40% compared to 1990 and revised ETS as centre piece
- a share of renewable energy of at least 27%, to be met at the EU level
- a strong contribution from energy efficiency, to be defined after the mid-2014 assessment of progress made towards meeting the 2020 target that I intend to present in September this year.

The 2030 Package reaffirms our overarching objectives. Europe's energy system must be secure, sustainable and affordable.

Without a well-functioning and integrated internal energy market across Europe we cannot achieve these objectives effectively.

Important achievements have been made in recent years in the internal energy market:

- Electricity trade across member states has significantly increased in recent years.
- Interconnections are used in a more efficient way.
- Electricity flows are increasingly optimised, guided by well-functioning price signals.

- These price signals are essential as they indicate where investments should be made both for the construction of interconnections and the building of new capacity.

2014 has also been a key year for market coupling, which is an important step in building an internal electricity market. Since May, markets are coupled not only in North-Western Europe but also South-Western Europe. Stretching from Portugal to Finland. Markets now operate under a common day-ahead power price calculation. This is a huge achievement with important cost savings that will ultimately benefit European customers.

However, the opportunities of cross-border trade in electricity are still not fully exploited.

More trade requires stronger physical connections between our markets which are still insufficient in many areas of the EU. Some European regions are still poorly connected to the rest of the continent, such as the Baltic States or the Iberian Peninsula. Increasing these interconnections should remain our priority.

We need additional interconnections. We need hubs and power exchanges that facilitate trade and provide information on the value of the commodity.

We must eliminate barriers to cross border, including for example regulated prices on the wholesale market and for non-household customers as well as export limitations for domestically produced gas.

The Internal Electricity Market also faces the risk of fragmentation. It stems from uncoordinated national decisions run against our common objectives. In some cases, state intervention in energy markets may be necessary in order to ensure security of supply and to achieve climate objectives. However, public intervention has to be designed with care to avoid adding

extra costs for consumers and distorting the functioning of the internal electricity market.

The Commission has defined guiding principles on state interventions in the electricity markets last November complemented with state aid guidelines in the same area. If badly designed and purely from a national perspective, state interventions are bound to be economically inefficient - causing high costs to industry and they are likely to fragment the internal energy market.

This concerns in particular support schemes for renewables but also measures to address questions of generation adequacy, such as capacity mechanisms. If Member States wish to use such tools, we are happy to assist them in designing them in a way that would not jeopardise the internal market. However, there is a need for cooperation with neighbouring member states whenever such plans are designed.

Like the UK, a number of countries are considering introducing capacity mechanisms. However, there is a real risk that these will create barriers to cross border trade and investment. Greater coordination at the European level, as well as at the regional level, when Member States are assessing generation adequacy and developing interventions can help avoid negative cross border impacts or other unintended consequences from interventions which distort the operation of the internal electricity market.

Let me conclude, The overall message here is that we have to accept our interdependence within the internal energy market. As long as we analyse capacity and security of supply from a purely national standpoint, we will only get national solutions to problems which are in reality regional and often European.

The market coupling we have witnessed in recent months is a promising indication of the truly integrated electricity market that is now beginning to emerge across a large area of Europe. It is a cooperative exercise, bringing together 28 complex regulatory regimes and connecting the European infrastructure networks in both gas and electricity. Eurelectric's figures show that Europe's distribution network alone would stretch to the moon and back 13 times. This is quite a challenge.

At its core, however, the proposition of the single energy market is simple - common rules, and pooled resources. These principles of cooperation have served Europe's member states well in the past. And today, only a Europe that works together can negotiate effectively for its energy imports and create the secure, competitive and sustainable energy system its needs.

Increased **coordination** of national energy policies is necessary to respond credibly to the challenge of energy security and to complete our energy market. National choices over energy mix or energy infrastructure affect other Member States and the Union as a whole. Member States should better inform each other and the Commission when defining their long-term energy policy strategies and preparing intergovernmental agreements with third countries. And more effort is now needed to ensure a better alignment between energy objectives and foreign policy, and to speak to our partners with a single voice.

In essence, the need to ensure our energy security and to complete the internal energy market therefore calls for a stronger Europeanisation of energy policy, for the very simple reason that this objective cannot be reached with purely national approaches.

I would like to add that the European Union should not act in each and every policy area. It should rather focus on those issues that only the Union

can effectively address. Energy policy is however clearly one of those areas. We should act accordingly.