

# **EURELECTRIC Annual Convention and Conference**

## **“The Consumer Powered Energy Transition”**

### **Opening Statement Johannes Teysen**

**- CHECK AGAINST DELIVERY -**

Dear Commissioner,

Dear State Secretary Baake,

Dear Hildegard

Dear guests,

Two years ago - nearly exactly to this date - the European Council recognised that the energy market and its industry needed a new policy direction. Dedicating less than 10 minutes to the topic, Heads of State and Government managed to sow the seeds for a “new energy deal”, which laid the foundations of the recently published Energy Union Strategy. From today’s perspective one can say that those 10 minutes were really worth it!

Almost in parallel to that EU summit, I had the privilege to take over the EURELECTRIC Presidency and, together with my colleagues in the Board of Directors, we decided to send strong messages to EU and national leaders on the risks of the existing policy framework which lacked clarity, foresight and objectivity.

It was the right moment, we felt, to give evidence that it is impossible to deliver affordable and sustainable energy supply if policies drive market distortions and an overlap of instruments invalidate the targets. This situation was not only leading to massive value destruction in the sector but also resulted in higher energy prices, increasing risks on security of supply and a stalling decarbonisation process.

I personally believe that companies that want to shape the trends of the energy future and not just follow them need to be willing to make clear decisions and start a new chapter. This also applies to policymakers. Technological advances and increasingly diverse customer needs are now principal drivers of change in the energy industry.

The time of endless cycles of government intervention in the market should be over - this only impedes progress instead of promoting it.

Instead, the road to the energy future needs an intelligent and reliable policy and regulatory environment. And I believe European energy policy offers a good setting: for the first time we have a Commission Vice President responsible for Energy, thus overcoming the silo mentality of policy thinking. And possibly more importantly, we are glad to have a new Commissioner in charge of both energy and climate policy – finally overcoming the rivalry between the energy and climate topics.

The first new Energy Union strategy tabled in February also describes the right and necessary steps to achieve an Energy Union in Europe – who knows if the Energy Union will end up like the Banking Union – but I do believe the two have much to learn from each other.

But as outgoing President of EURELECTRIC, the challenge of steering the industry through these challenging developments will be that of my successor, Antonio Mexia, CEO of EDP.

So allow me instead to take you through some of the milestones of my Presidency:

### **Manifesto – February 2014**

In the words of Karl Marx: “Philosophers have only interpreted the world in various ways. The point, however, is to change it!”

We, my colleagues in the Board, therefore defined and promoted new ideas for change, which we ironically entitled “Manifesto”, in which we asked for:

- A robust and ambitious climate change policy with immediate actions to fix the EU ETS by addressing the structural flaws of the existing surplus on the one hand, and by providing a longer-term perspective for investors through the target of reducing GHG emissions by a minimum of 40% by 2030;

- We also asked the Commission to revisit the regulatory framework and restrict market intervention to limit uncontrolled costs of sunk investments due to plant closures, which ultimately threaten security of supply. In this context we urged a new sustainable market design for both, renewable and conventional energy sources;
- And lastly, we turned towards our customers by asking for policies that allowed to empower them and keep their bills in check.

From today's perspective, I am happy to note that the Commission has taken up several of these challenges and recommendations and is searching for solutions and new regulatory guidance to enable their implementation.

For instance, as EURELECTRIC we strongly welcome the agreement of Heads of State and Government on approving an ambitious new climate-policy based on a CO<sub>2</sub> reduction target of at least 40% by 2030. On this basis, the EU Emissions Trading System (EU ETS) will be successfully reformed. We especially welcome the recent agreement in the trilogues on the establishment of the market stability reserve under the ETS, and urge for its quick implementation. The ETS can become effective again and eventually also promote the use of efficient power stations.

We are also pleased to learn that the Commission is coming forward with new proposals on downstream market design and are eager to hear what Commissioner Arias Canete has to say in this regard. In EURELECTRIC, we have initiated strategic projects on both the upstream and downstream markets under my Presidency.

### **Issue Management upstream**

Along the lines of the Commission's guidance on state interventions and the state aid guidelines, EURELECTRIC proposed a reality check on how to reconcile growth in renewable sources with well-functioning markets. By setting up a horizontal group of experts we proposed the following recommendations for a new market design:

- First and foremost acknowledging market functioning as a “no regret” option and a fundamental to complete the IEM;
- making RES fit for the market by achieving their operational integration into the market and by designing more cost-efficient and less market distortive RES policies;
- and lastly by making the market fit for RES or rather by adopting a European mind-set and following a regional approach to market design whereby uncoordinated national developments are avoided.

In this context we welcome the Commission’s recent state aid inquiry into capacity mechanisms and reiterate our call for stronger Commission leadership on market integration. The fragmentation experienced on European energy markets during the last years have not only led to inefficiencies from a policy aspect, but also to a loss of competitiveness and affordability for final European customers. Today’s end customer prices in the EU are more than twice as high as in the US.

From an entrepreneurial perspective I can add that an incomplete internal energy market with fragmented policies, regulations and unparalleled risk premiums for investments in Europe is unsustainable and holds us back from competing with other more competitive regions of the world.

Ladies and gentlemen, some countries might be reluctant to acknowledge the need for a capacity mechanism to pay for reliability, but such an instrument will come in most parts of Europe. It is my strong belief that only by applying best practices we will be successful in developing a clear, efficient and sustainable reference model for Europe.

### **Issue management Downstream**

Parallel to the regulatory and policy deficits which have brought some of our companies to existential threats - the competitive market structure of our sector over the past decade has also been reversed through the commercialisation of new, distributed and zero-marginal-cost technologies. And unlike Napoleon - who defined a revolution as an idea taken up by bayonets – I would suggest that this idea was taken up by our customers as a silent but nevertheless radical revolution.

This has had a massive impact on our business:

- Traditional value chains are breaking down in a move of atomisation which creates new clusters. These clusters evolve around new needs and value segments that need to be responded to;
- The kWh-oriented sales do no longer drive our business nor our customers' expectations – our new business will circle around energy solutions;
- Consumers will seek ways to reduce total utility bills and will turn towards energy management measures on-site with new data and processes;
- Behavioural patterns of customers will change and also their demand profiles;
- The downward evolution of technology and data costs is defining the speed of innovation which constantly offers new opportunities;
- And new entrants will try to capture value by competing, bypassing or de-risking traditional value chain segments whereby shifting value and policy attention; asset light business models make market entry simple;
- But: technology remains a wild card for all market players.

These structural changes will require policy and regulation to link up with the competitive environment to define market access and level playing field whilst avoiding or micro-managed planning.

EURELECTRIC has therefore decided to draw up ideas and policy recommendations towards a “Consumer powered energy transition”, encompassing the intelligent transformation of the energy system, which remains affordable, competitive and secure.

I am therefore eager to discuss with you the challenges, opportunities and complexities of shaping and nurturing the transition to a customer-centric energy market during the next two days. There will be four sessions examining distinct themes:

- **First Session - Global trends and visions for the European power sector:** a session in which we will try to understand what are the relevant drivers for change to the electricity sector and the impact on our individual businesses
- **Second Session - Embracing change: a customer-led future:** where we will discuss how energy customers are deciding for themselves what their energy supply shall look like. We will try to explore how we understand what this means and how to make convincing offers.
- **Third session - The energy world of tomorrow: smart, innovative and competitive** focusing on the interplay of continuous innovation on various elements of the value chain and what the future scenario could be in the areas of wholesale markets, networks and distributed generation and storage, matching all of this with increasingly diverse customer needs.
- **Fourth session - Powering Europe ahead:** Our last session with a challenging Q&A part that addresses the intricacies and complexities of a sustainable energy supply in a customer-centric world.

The event is hosted by BDEW, whom I would like to sincerely thank along with all our sponsors who also contributed to shaping this very rich programme.

Ladies and gentlemen, the time to craft a long-term energy and climate policy, responding to the needs of our customers is now. The EU internal energy market is and will remain the right response to the global challenges we face. The European Commission's proposal to establish an Energy Union adds to this by applying a uniform policy environment. It is my firm conviction that this is the right direction which we must continue to advocate.

Thank you very much for your attention!