

- CHECK AGAINST DELIVERY -

Keynote Speech by Antonio MEXIA, incoming President of EURELECTRIC

“EURELECTRIC Priorities: a United European Power Sector Engaged with the Customer”

Ladies and gentlemen, distinguished guests, friends and colleagues,

We had several thought provoking discussions yesterday about the changes our industry is going through. Today, we pick up where we left off yesterday with a very interesting session focused on the future of our sector across the value chain.

Let us first take a step back and look at what has been happening in the power sector, which has been under heavy criticism for a number of years. We are often accused of being deadweight on economic competitiveness; being pollutant; providing poor service to customers and disconnected from their needs.

A lot of this criticism is unfair, to say the least. A part of it, however was fostered by a sort of denial, a disconnect from reality, that the sector was in.

To provide some examples, many in the sector regarded renewables as merely marginal, uncompetitive, contributors to the electricity mix; others underplayed the role that up and coming disruptive technologies could have on our business models; others yet thought of customers as passive takers of the services we pushed upon them.

We might not be completely over this denial stage yet. To overcome it, we need a clearer vision of what the future energy world will be. The instruments available to the sector to make an effective transition, including the current market design, will have to be reviewed.

Recently, the sector has been making great strides in overcoming these barriers that kept us from being perceived as committed builders of the new energy world.

The last two years of Johannes Teyssen’s Presidency at EURELECTRIC were absolutely key in this process. He was adamant about the customer being the focal point of everything that we do. He understood that the various issues our sector faces cannot be handled separately, in silos. He created transversal teams at EURELECTRIC that brought us a systemic sector view on important topics such as capacity markets or downstream activities. He brought EURELECTRIC closer to other associations in the power sector, signing joint statements on important European energy policy topics with DSO, renewables and gas associations.

I am honoured to become the EURELECTRIC President for the next two years. In order to build upon the outstanding work that was achieved during Johannes Teysen's Presidency, I would like to share with you my view on what EURELECTRIC's priorities should be over the next two years.

[THE CONTEXT OF AN EVOLVING ENERGY WORLD]

Balancing the three pillars of energy policy – sustainability, competitiveness and security of supply - continues to be a major challenge for our sector. The European Commission has recently launched the Energy Union, bringing together energy and climate policy in an attempt to consolidate the three pillars. The Energy Union is composed of five mutually supportive dimensions, which are well known to all:

- Energy security, solidarity and trust;
- A fully integrated European energy market;
- Energy efficiency contributing to moderation of demand;
- Decarbonising the economy;
- Research, Innovation and Competitiveness.

Industry supports these high-level political goals; however they need to be brought down from the level of political statements and be translated into concrete proposals for action. So, what role will our industry play in this? How can we act as facilitators to this change in the energy world? How can we engage our customers, who are often forgotten in these processes, to actively participate in the efficient execution of these policies?

Our sector has to be united and act together in this transition. EURELECTRIC plays a key role here.

[WHERE WE NEED TO ACT]

I believe that EURELECTRIC should prioritise five action streams over the next two years:

1. Reveal the value of electricity as the key driver for a decarbonised, competitive and energy independent Europe;
2. Achieve the Internal Energy Market under a revised market design to attract the needed investments;
3. Develop a pragmatic framework to pursue the Decarbonisation Agenda;
4. Reinforce the focus on retail anticipating the needs of empowered customers;
5. Highlight the increasingly active role of DSOs as technological enablers and market facilitators.

Let's discuss these priorities a bit more in detail.

1. Reveal the value of electricity as the key driver for a decarbonised, competitive and energy independent Europe

The price of electricity: this is probably the most recurring topic that is referred to whenever our sector comes up in conversation or in a politician's speech. But the value of electricity, what it effectively adds to our everyday lives, is rarely addressed.

Let us put things into perspective. With a quick jump over to the Apple store here in Berlin we can buy the latest iPhone, starting at €700. Then we need a call and data plan so we head over to, let's say, a T-Mobile shop and we can get a plan starting at around €30/month. All that is left is to charge the iPhone for its daily use. And this is where we come in, enabling the use of devices which have become indispensable to most of us. And at what price does this come to the iPhone user? Under €1/year.

This simple exercise is an illustration of the huge gap between the perceived and the real value of electricity. If there are so many concerns about the price of electricity and no discussions about its value, it is our responsibility as an industry to put this into the right perspective.

This discussion amounts to revealing the value of electricity which can be realised already today. But we have to make an additional effort to show the vast potential value that still lies untapped in our industry. Areas like mobility and heating and cooling will largely benefit from the value that our industry has to offer in the future.

We must also make it increasingly clear that electricity from carbon-neutral generation is the cleanest energy carrier, which therefore makes it the main vector for a decarbonised energy future – especially in our buildings and transport which currently directly consume fossil fuels. Electrification is the key vehicle for a decarbonised, competitive and energy independent Europe and we must make that absolutely clear.

The decarbonised, competitive and energy-independent Europe should be delivered through efficient markets. This brings me to the second priority.

2. Achieve the Internal Energy Market under a revised market design to attract the needed investments

The completion of the internal energy market (IEM) is a no regret option. The cornerstone to all market developments is the full execution of an integrated European energy market, i.e. the completion of the IEM.

The implementation of the IEM requires an upgrade of its hardware, for which we have two clear examples:

- Interconnector investments that further link our markets and facilitate the integration of RES across Europe. In this direction, EU interconnection targets of 10% and 15% have been set for 2020 and 2030 respectively;
- Smart grids which deepen the participation of demand in the market.

The IEM's software will also have to be improved and completed. This calls for implementing the Third Package and enhancing TSO cooperation.

As we evolve towards decarbonised power systems, however, a new economic reality emerges. We are evolving towards a sector increasingly based on fixed costs along the whole value chain.

In the upstream, low-carbon investments are CAPEX-only, e.g., renewables or nuclear, in stark contrast with traditional thermal generation.

In the midstream, intermittency management is achieved through storage, interconnections and under-utilised thermal backup – thus, all fixed costs.

At the downstream level, energy efficiency is also achieved through a replacement of variable costs (e.g., burning gas to heat homes) with fixed costs (more efficient appliances that burn less gas for the same heat output). Transport and distribution networks are also mainly composed of fixed costs.

Given these on-going changes in the economics of power systems, we must make the issue clear to policymakers. Our proposals should reflect these changes.

The challenge ahead of us is to create a holistic market design that delivers the diverse set of technologies needed for a balanced energy mix and that adapts to the evolving economics of power systems.

One critical area is that of security of supply. To ensure it, firm capacity is needed in increasingly intermittent power systems. We should continue to make clear that proper capacity markets value this firm capacity and deliver price signals that incentivise necessary capacity to stay in the system or else attract necessary investments. These markets should reach beyond national borders, optimising capacity across regions of Europe, and be developed in line with the objective of the IEM.

The third priority is intimately linked with our sector's policy framework.

3. Developing a pragmatic framework to pursue the Decarbonisation Agenda

Europe is moving to a low-carbon electricity system. The recently approved 2030 targets (at least 40% GHG emission reductions below 1990 levels; a 27% EU RES target; and a 27% indicative target for energy efficiency – which will probably be raised to 30% before 2020) confirm the European ambition which had already been set with the existing 2020 targets.

The EU ETS must remain the principal instrument to achieve the EU's emission reduction objectives. Structural reforms that strengthen the ETS, such as the implementation of a Market Stability Reserve, are therefore crucial.

With regard to RES, in 2013, their share of energy in gross final consumption of energy reached 15% in the European Union, en route to the 20% 2020 target, which translates into around 34% in terms of electricity share.

The increasing cost competitiveness of RES in relation to other technologies is one of the factors that have contributed to their deployment.

Further RES investment, both at centralised and decentralised level, will need to be made to reach the 2020 and 2030 RES and emission reduction targets and to boost Europe's energy independence.

To ensure an effective transition, it is key to fully integrate the growing volumes of RES into electricity markets and balance the role of RES within the 3 pillars of energy policy (security of supply, sustainability and competitiveness).

Integrating RES into the market enables further, sustainable RES development. We should make further progress in their operational integration bearing in mind the extent to which they can realistically contribute to the different markets given the specificities of their technologies.

The strong ambition in energy efficiency continues to change the way our industry creates value and does business. There is no doubt that utilities and energy service partners have an important role to play in helping customers increase the efficiency of their energy use. We continue to develop new business models and deliver innovative technologies to our customers.

We need to ensure that our sector is a strong driver and deliverer of energy efficiency to our customers, which can be unlocked through the smart transformation of our sector. But we must also ensure that our ambitions and policies in this field remain cost-effective. Instead of further burdening electricity bills with policy costs we must seek to deliver energy efficiency through innovation and markets.

But we must not forget that massive new investments are needed. Stimulating them requires market-based and cost-effective investment signals. These include the ETS as the key driver, reinforced and efficient spot markets and other market-based long-term price signals that investors require. Competitive mechanisms to establish contracts consistent with investment decisions will in all likelihood be necessary to complement the energy market's price signal.

The trajectory towards the 2020 and 2030 targets should be defined and monitored, so that timely measures can be taken at EU-level to bridge any gaps to achieve the targets. Such measures should enable investments to be located where they are most efficient by profiting from different regions' competitive advantages.

In order to steer the direction towards these targets, we must not forget that an effective, pan-European Governance framework is needed.

The fourth priority concerns the crucial relationship we have with our customers.

4. Reinforce the focus on retail anticipating the needs of empowered customers

Many of the news pieces about our sector that we read today have one underlying tone: given the new players coming into retail electricity markets, we are faced with "the Death of Utilities". I believe that in this room we think differently. As the famous quote goes, "The reports of our death are greatly exaggerated".

Competition is very much welcome in retail markets. It drives us to innovate in a way that we better serve our customers. It incentivises us to create more and more value-added services focused on our customers' needs.

EURELECTRIC must continue to proactively communicate these messages. We must show how future-proof retail markets can be designed. We must showcase the increasing number of examples where utilities and new players are teaming up to meet our customers' needs.

I was very pleased to see that last year, EURELECTRIC's work on explaining what is going into our customer's bill was very successful. We should continue to lead by example and make it transparent to our customers what is going into their bills. We must also continue to express to policymakers the urgency of cleaning up the many taxes, unrelated to our sector, which are weighing on these bills.

Many areas of growing importance such as distributed generation, demand side management and distributed storage are strongly linked with retail electricity markets as well. They are all ways in which customers can actively engage with our sector in customising the energy solutions that best fit their needs. EURELECTRIC should also here play a key role the European discussions.

Staying in the downstream, we arrive at our fifth and final priority.

5. Highlight the increasingly active role of DSOs as technological enablers and market facilitators

Over the last few years, EURELECTRIC has carried out a lot of relevant work on the role of DSOs. Their increasing importance as active system managers implies that further work on the exact definition of their role will be needed.

DSOs are not only technological enablers in the electricity system, but they must also act as neutral market facilitators. They should be incentivised by regulators and policy makers to optimize the use of their resources by properly channelling all market demands for services which can then be procured through market participants competing to deliver the most efficient solutions to customers.

The continuing emergence of smart grids paves the way for DSOs as data managers and brings with it the need for ensuring customer data privacy.

DSOs will also be key players in terms of industry innovation. With energy service companies becoming predominant, DSO infrastructure grids will need to stand the test of time by becoming truly actively managed in order to accommodate such services as electric mobility and home automation. We also need to stress the role of efficient grids as crucial elements to back up and manage decentralised generation.

These are all-important reasons why EURELECTRIC must continue to emphasise the role of DSOs as technological enablers and market facilitators in the new energy world.

[GOVERNANCE AS A COMMON ELEMENT]

The five priorities I have described have one common element: the need for an effective, pan-European Governance framework.

Achieving the Integrated European Market and delivering on EU-wide (rather than national) targets raises the need for an effective Governance framework with enforcing mechanisms.

Proper governance should promote TSO cooperation so that transmission network planning, adequacy assessments and system operation are carried out beyond a national level.

Regulation should also be increasingly coordinated between Member States, with ACER's role becoming more important in the safeguard of European interests.

[CONCLUSION]

Ladies and gentlemen,

As we embark on this journey over the next two years, I am proud to have alongside me Vice Presidents Jean-Bernard Lévy and Alistair Phillips-Davies, two distinguished leaders in our industry. I am also happy that we will continue to rely on the invaluable experience of Secretary General Hans ten Berge and look forward to working closely with him. Last but not least, I would like to express the utmost confidence in the fantastic staff at EURELECTRIC. Their often silent but extraordinary daily work behind the scenes cannot go unappreciated.

As you have probably noticed, I am very optimistic about the work that EURELECTRIC will carry out over the next two years. We will be successful in showing that our sector is committed to the transition to the "Energy World of Tomorrow", which is the topic of the panel debates in this session of the conference.

In order to be successful, however, we need to stand united as a sector and we must show that we are all here together to meet our customers' needs. To achieve this, we need to leave old philosophies behind:

- The future is not about conventional generation versus renewables. It's rather about how all technologies must work together in a balanced energy mix towards decarbonisation.
- The future is not about centralised versus decentralised generation. It's rather about how both can complement each other in sustainable power systems.
- The future is not about DSOs versus retailers. It's rather about how both are intimately linked in creating solutions that deliver choice to our customers.
- The future is not about the "old utilities" versus new entrants. It's rather about how both can sometimes compete and sometimes cooperate to create better services for our customers.

In summary, the future is about how our sector, as one, can continue to create value for our customers by adapting to the changes that lead us into the new energy world. A world where electricity is key both to people and companies.