



Speech by Commissioner Miguel Arias Cañete at the Eurelectric Annual Conference

Berlin, 01 June 2015

State Secretary Baake,
Ladies and Gentlemen,

Let me first start by thanking Johannes Teysen and Eurelectric for the invitation to speak at your Annual Convention today.

Rarely are so many influential industry people from across Europe all assembled in one place. That is testament to Johannes' work as President in representing industry views and making sure you speak with one voice on the issues that matter.

And that voice is needed more than ever because the power sector is undergoing one of the most profound changes in its history. And it is this change that I want to talk about today.

Because with the liberalisation of the energy industry, ambitious climate and energy targets, and new technologies we are moving towards a more decentralised, sustainable, and smarter power system. That change is inevitable but it has brought about serious challenges for many utilities and their traditional business model. Political priorities have changed, the market has shifted and in some sectors the investment has dried up. But, as with any change, it is the ability to adapt which dictates whether the change is for better or worse. Utilities have had to adapt to the changing circumstances and take on new roles. The initial agent of change in the energy sector has been the advance of the internal market. It successfully turned regional monopolies into Europe-wide competitors. But now the internal market *itself* must adapt to changing circumstances to stay meaningful. For me that is one of the main tasks on which the Energy Union will be judged. There is a lot at stake here – according to a recent study the extra costs of doing without the internal market are up to 40 billion euro a year. Costs that ultimately the customer would have to bear.

If we are to succeed a completed internal market must, in my view, be able to achieve three things:

Firstly: The internal market must again become the driver for investment in the power sector by offering the stability and level playing field investors need.

Secondly: The internal energy market must be reshaped so that it can accommodate and drive the development of renewables.

And last but by no means least: We need to make the internal energy market works for 21st century consumers who want to be more active players in the market.

1. The internal energy market - a driver for investment in the sector.

It is clear that a lot of investment will be needed in the years to come – we had previously estimated the needs at around 1 trillion euro by 2020. In fact one of the biggest obstacle to having a truly integrated energy market is still the lack of investment to link it up properly. If we want an energy market where energy flows across borders and competition is facilitated then we need proper **interconnections**. We have taken a big step towards that with our strategy on the 10% electricity interconnection target adopted at the same time as the Energy Union paper. Yes, we will support the financing of interconnection projects, for example from the Connecting Europe Facility, but we all know public resources alone will not be able to bridge the investment gap. We need to leverage private investments through public support. That is the science behind the European Fund for Strategic Investments which will prioritise energy projects. But we need more investment throughout the sector. This brings me to one of the core questions of today's debate on market design: where are the price signals for future investments in **generation capacity** going to come from?

The first priority in this regard is removing persisting distortions to prices in our energy markets that blur investment signals. That means that investors can rely on prices on wholesale markets to be free from public intervention, including peak prices that might be needed to provide investment signals. But it also means that we have to ensure that there is enough flexibility in the market. The extra investment in interconnections will help but we also need to improve demand-response. We need to look at the barriers – both regulatory or in terms of market design – to allow consumers to provide

flexibility in the market. Changes to the overall market design are needed, both to allow the market to respond but also to provide the right investment signals for flexible capacity and demand services. All of this will help to make price signals more reliable against the backdrop of rising volumes of variable generation.

Still, some Member States believe this is not enough and have introduced or are contemplating national measures to remunerate generation capacity which can distort the internal energy market. We need to make sure that any intervention is not detrimental to other countries or regions. That is why in July we will set out our initial views and start a consultation on how to reform the electricity market design. We want to hear your views before we make up our mind and propose new legislation. Some of the questions before us won't be easy to answer, and the question how to tackle the issue of capacity mechanisms ranks chief amongst them. As you will be aware, the Commission has already started a competition inquiry to improve our understanding of existing mechanisms.

Can there be an internal market if some countries rely on peak prices in the energy-only market to steer investment while others rely on capacity markets? As I have said, our first priority will clearly remain to make the internal energy market work to drive investments.

However, to limit distortions of capacity mechanisms where they do exist we also need a stronger common framework for such mechanisms that goes beyond case-by-case decisions:

- Firstly, that means we need to ensure that all EU countries should take into account the internal market and their neighbours when **assessing their own generation adequacy**. For this we need a common methodology.
- Second, we need to ensure that where such mechanisms are introduced they are **open to participation across borders**. As an objective this has already been agreed, but we have yet to find a way to make it operational. The same holds true for **integrating the demand side**: this is agreed in principle, but not yet fully achieved in practice.
- Third, we will have to assess whether the **variety of mechanisms** which currently exist is too large and whether it should be narrowed down to one or two types.

In short, what we want to achieve is a European or at least a regional approach to capacity mechanisms. This reflects our belief that the internal market can only work if there is regional cooperation between different countries.

And that is also something that is true when it comes to renewables

2. Making the Internal market work for renewables

When we talk about change in our energy system the most visible area is renewable energy sources. Renewables account currently for around 15% of our energy, and almost 26% of our electricity! If we reach our 2030 target, around half of electricity production will come from renewables in 15 years. Later this year I will be going to Paris to agree on a global climate deal which will put renewables front and centre of our energy system in 2030 and beyond. But for that to happen we need a smarter energy system, a system that will help integrate the increasing levels of renewables smoothly. Electricity systems have always relied on flexibility due to variable demand and unforeseen events in the grid. But that need is growing fast due to the increase of, in particular, wind and solar energy.

The development of liquid and integrated short-term markets will significantly help producers of wind and solar to become active market players. It will enable them to take responsibility for managing their own production and keep their portfolio in balance. But renewables themselves should become providers of flexibility. Our framework for the balancing markets will have to be adapted accordingly. On the other hand we need to ensure that support schemes for renewables no longer separate them from the market. That is already changing with the move to market oriented schemes.

However, we need to go further - a more coordinated approach to support schemes is needed. It is time to consider how to make further progress in opening support schemes across borders, or even creating schemes that are regional in scope. Additional incentives might be needed for Member States to do that. Ultimately the reform of the market design as well as of the support schemes should have one objective: allowing renewables development to be driven by the market in the future.

But if that market design is going to work for the industry it needs to work for the consumer as well.

3. A consumer-led market

EU households often spend more on energy than on their holidays or eating out. However, people tend to take a real interest in energy supplies only when there is a problem like a power cut, or when they receive their bill based on real, not predicted, consumption- which for most Europeans is still once a year.

The role of energy consumers has for decades been mostly limited to paying the bill for the energy

they use. That is changing rapidly. Today's consumer is no longer passive. They want to know everything they can about what they consume – this is as true about the food we eat as about the energy we consume. And that's a good thing. It allows for competition and flexibility in the market. It attracts investors and it encourages innovation.

But modern consumers need a retail market that works. Consumers still do not have the **information** they need about how much they are consuming. They still don't have appropriate tools such as reliable price comparisons to make more informed decisions. And they still don't have the **incentives**, such as contracts rewarding active consumers, to benefit from lower energy prices. Consumers who want to profit from the ups and downs of prices in intraday markets should be able to do so. In some countries, contracts based on spot prices are already available. In Sweden and Finland, consumers use them to save up to 30% on their energy bills. But that's not replicated everywhere and the problem is even worse for vulnerable consumers who are sometimes left with even less choice and related benefits.

The bottom line is that consumers still cannot create the competitive pressure to positively affect the cost, quality and choice of available energy services. All of that points to the need for a reformed retail market. That's why alongside the market design initiative we will propose our views on how retail markets will have to change. The aim is to give consumers the tools they need to be active participants and enable them to control their consumption, lower their bills and benefit from new smart energy technologies. This means better connecting the retail and wholesale energy markets to give consumers access to flexible tariffs.

But it also means allowing them to benefit from **new technologies** to control their energy consumption and lower their bills. Consumers should be able to react to energy prices, and decide where and when to consume energy.

Likewise a growing share of consumers will be **producing parts of their own energy**. This can deliver a positive contribution to towards activating customers, but we need to make sure it interacts efficiently with the overall system. This is one of the fields for which we have to embrace the technology transition. That's why we have doubled the funding for energy research under the new Horizon 2020 programme. And to support that, I will shortly propose an upgraded Strategic Energy Technology Plan to help us focus on the areas with the highest potential to empower consumers. Using smart grids and home energy management systems to intelligently manage the energy consumption and costs will not only benefit energy consumers, but will help modernise our energy systems while creating growth and jobs.

All of the above changes in the retail markets will have to be backed by an adequate regulatory framework. A framework that ensures that new technologies fully benefit all market players in a non-discriminatory way; a framework that distributes costs and benefits fairly; and that allows business cases to emerge for new services such as demand response.

That is what we will look to create.

Conclusion

Ladies and gentlemen,

I started by saying that it's the ability to adapt and embrace change which decides whether that change is for the positive. Clearly the changes to our energy system that you will be discussing over the next days should be seen as opportunities rather than threats. We are moving to a more flexible energy system which needs to be more responsive and better adapt to the needs of our consumers, our climate and our economies.

Firstly that means reforming our internal energy market to make the power sector attractive for investment.

Secondly it means redesigning our electricity market so that it has enough flexibility to integrate increasing amounts of variable renewable energy.

And thirdly, it is about looking at how our retail market can better work for consumers allowing them to take control of their energy consumption and production.

From our side we will set the basis for achieving those three objectives with the upcoming proposals on market design and retail markets. But we cannot achieve anything without working hand-in-hand with the industry. We need your buy-in and support to ensure that we make the most of the opportunities ahead of us.

I look forward to hearing your views today on how we can do that together.

Thank you

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