

EURELECTRIC Annual Convention and Conference: “innovative Investments: Re-energising Europe” Bologna, 3-4 June 2013

Speech by Fulvio Conti, (Outgoing) EURELECTRIC President and CEO of ENEL: ‘A smart and innovative industry, responding to new and complex challenges’

Dear Commissioner,

Honourable Guests,

Distinguished audience,

Let me first thank you, Commissioner Tajani, for providing us with your views on industry competitiveness and energy policy and reiterating the need to have the two well aligned.

The power sector is the backbone of the European economy. A competitive electricity industry provides the basis for affordable electricity. And with affordable electricity comes economic growth.

This is the theory, that I am sure we both agree, but the current reality is dramatically different: markets are being side-lined in favour of politicians setting the price – and customers, both at industrial and retail level, are being asked to foot the bill. They are the ones paying the price for a broken energy system; a system in which political interventionism rules; a system in which reregulation is considered a virtue, not a threat; a system in which politicians think they can outsmart markets.

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In this session I will be speaking on the main EU energy policy achievements over the last decade. This will lead me to address some of the challenges the European energy industry is facing at the moment.

I will finally conclude by outlining what I see as the key elements needed to pave the way towards a cleaner, more efficient and smarter electricity sector.

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[MAIN EU ENERGY ACHIEVEMENTS OF THE LAST DECADE]

Ladies and gentlemen,

Energy policies are at the **heart of our changing economies and aspirations** for a more sustainable world. Rightfully, these policies have been designed to take on ambitious commitments in lowering greenhouse gas emissions and preserving resources to the benefit of future generations.

As a matter of fact, the European Union – with the introduction of a separate energy chapter in the Lisbon Treaty in 2007 and the adoption, two years later, of the Energy and Climate Package – has set the basis for a transition towards a future that - I believe – should and will be **cleaner, more efficient and smarter**.

- “**Cleaner**” because electricity is the cleanest power vector. It will therefore play an ever more relevant role with an increasing shift from fossil fuel combustion to electricity.
- “**More efficient**” because electricity is not only the cleanest vector, but also the most efficient. Our economies are required to reduce their costs in order to become more competitive. Electricity is thus the solution for many energy-intensive sectors. [→]

- “**Smarter**” because we no longer have passive consumers. Our consumers do not only consume electricity, but are increasingly choosing when to consume and even to produce their own electricity.

It is no secret that we, as an industry, did not always agree with the European Commission and the member states on the path to take. But we cannot deny that they have taken important steps to promote the development of low carbon emitting electricity technologies. In particular, the implementation of the 20-20-20 targets - as an integrated approach to climate and energy policy - played a crucial role in engaging the transition of our economies. Furthermore, Europe has shown significant leadership in initiating the global climate change process and winning global commitments in the framework of the Kyoto Protocol.

The transition towards a cleaner, more efficient and smarter electricity sector is now well underway: renewables including hydro made up 34% of the EU’s installed capacity in 2011. This process is laudable in its aspiration and objective. However, it is also raising difficulties, not least in how to reconcile the environmental ambition with the competitiveness of Europe’s industries.

[CHALLENGES]

The economic and financial **crisis that started in 2007 has had a severe impact**. It led to floundering economies, with flat or even negative growth. And it has impacted our sector by reducing energy demand and weakening Europe's emissions trading system, the ETS. The severity and duration of this economic downturn is something that we did not see coming. In 2013, the euro zone will still be in recession, with the GDP falling by 0.4% compared to 2012.

But the economic crunch is by far not the only reason for the situation we are in: the root cause lies with the **design of our energy policies. This design has proven to be insufficiently cost-efficient, consistent and coordinated. It has thus led to a dramatic increase of costs for customers while worsening the investment conditions for power companies.**

In a context of declining demand, the steady increase in renewables capacity – mostly through over-compensatory and, in a number of cases, badly designed support schemes – had significant distortive effects on the functioning of electricity markets:

- In 2012 the volume of electricity trading across Europe dropped by 20% compared to 2010 levels. With the massive introduction of subsidies, current electricity prices barely manage to provide a **meaningful price signal** as a result of distortions to the demand/supply curve. In the same vein, a significant proportion of conventional generation plants has been put out of the market while needed by the system when the wind does not blow or the sun does not shine.

- This was exacerbated by the fact that renewables development has been carried out independent of any market conditions and via operating rather than investment aid. **Without a meaningful price signal** market-based investment and consumer engagement through demand response are made more difficult. This undermines the aspiration for a smart and innovative power industry.
- The electricity sector is now in turmoil: credit ratings of utilities have significantly deteriorated; many generation assets are valued at zero by financial investors; and a great number of our companies are making painful cuts to both budgets and staff. As emphasised in EURELECTRIC's Investment Action Plan, published last year, this is mostly due to the **regulatory risk caused by increased intervention in energy markets, which has resulted in an unwillingness to invest in our sector.**

Let me be very clear: when I point to the drawbacks of the renewables paradigm shift, I am not saying that this technology is unsuitable in its own right and unfit for the future. Quite the contrary: I believe **that renewables technologies have a major role to play in driving further decarbonisation** and contributing to security of supply. However, without a doubt we need to find a more efficient way to do it. Furthermore, we are crucially missing an analytical European-wide study on the various support schemes in place today and the lessons learnt. This analysis is urgently necessary. It should not wait for a political decision concerning the future of the ETS or the definition of new renewables targets for RES.

In 2012 alone, 38 billion euros were spent on renewable subsidies. This is way too much! I am convinced that the same result is possible for less. Today's electricity bill for an average household in Germany shows that the wholesale price only represents 15% of the overall price. Roughly 50% are composed of taxes, levies and surcharges related mainly to the transition efforts.

The latest **European Energy Summit**, which took place just two weeks ago in Brussels, placed great emphasis on the **current level of energy prices** and the **competitiveness of our European industries**. I believe these are highly legitimate concerns in a context of depressed economies and limited abilities to finance our climate policies. This should be a signal for policymakers to move towards a more genuinely affordable energy policy. But they must not give in to the temptation of re-regulating prices: that would be the wrong answer. Today's situation has shown the limits of shifting more and more costs onto end-users. At the end of the day, it will always be the customers who will have to pay whichever sophisticated mechanism is put in place, be it for example through delayed costs or additional surcharges.

So it is now **high time to bring policy to maturity through a cost competitive approach** and clearly identify where the costs lie and who should pay for them. The goal should be clear: electricity should be produced from competitive generation sources. As the EU starts reviewing its climate and energy policies to prepare for the future beyond 2020, it is of paramount importance to reduce the customer's burden to what is strictly necessary and set the right conditions for power companies to carry on the transition in a cost-efficient manner.

[CHALLENGES REQUIRING SOLUTIONS]

Dear Commissioner, dear distinguished audience, I realise that the picture I have painted is far from rosy. But I think it is a realistic description of the challenges we are facing. These challenges are still ahead of us; they are complex and closely interrelated; they are also likely to stay for some time. But – and this is an important but – they are not insurmountable. At the outset of my speech, I mentioned that energy policies are at the heart of our economies and aspirations: in the same way, I believe that energy policies can provide the solution to most of our problems. To reinvigorate investment and pave the way for a successful transition process, a system approach is needed. This approach must be based on prompt and coordinated actions at national and Commission level.

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These are the 5 prerogatives we, as an industry, are asking policy makers:

- ***A 2030 regulatory framework conducive to greater investment:*** too many policy instruments usually result in market distortions, contradictory incentives and unforeseen consequences. Furthermore, conflicting EU policy instruments put investment seriously at risk and are counterproductive at a time when our sector needs sizeable investment into low-carbon technologies. An urgent look at the interaction between the ETS, renewables and efficiency policy instruments is needed so as to clarify the post 2030 regulatory framework.
- ***ETS as key driver requiring an urgent fix:*** The ETS is the most cost-efficient way to deliver decarbonisation. It should remain at the centre of the transition process. However today's low EUA price is causing the ETS to be perceived as a weak instrument. The ETS is at risk of being undermined and replaced by national and less cost-efficient instruments. Prompt action is required to rescue the ETS through the full acceptance of the temporary back-loading until proposals for effective structural measures are adopted.

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- ***Speed up market integration and bring renewables into the market:*** the completion of the Internal Energy Market together with the ETS should be the cornerstone of EU policies towards decarbonisation to deliver low-carbon electricity to customers at cost efficient and affordable prices. However integrating electricity markets, removing price regulation and price caps, and building additional grid infrastructure will not be sufficient as long as renewables continue to be out of the market. The EC must act decisively to bring renewables into the market and subject renewable energy producers to the same market exposure and requirements as any other generators.
 - ***Reform renewables support schemes to support immature technologies only:*** mature renewable technologies with wholesale parity no longer need subsidies. Support schemes must be redesigned post 2020 to incentivise deployment of the most cost efficient technologies so as to operate generating plants according to price signal. Immature technologies can be better supported by R&D support. Retroactive changes to existing support schemes must be avoided, but future support schemes should be developed in a way that is market compatible and less distortive.
 - ***Innovation:*** the recently released EURELECTRIC Innovation Action Plan has demonstrated the efficiency gains that well designed innovation policies could deliver: technological breakthrough and business model innovation in power generation and downstream energy services could unlock up to 70 bn euros in 2030. They could also decrease power generation costs by 11%.
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[CONCLUDING NOTE ON INNOVATION]

Ladies and gentlemen, in my presentation I have referred many times to the word 'challenges' and have often alluded to the revolutionary changes our sector is going through on its way to delivering a smarter and innovative electricity supply. And I believe that for every challenge we are facing, there is an opportunity that our industry needs to seize. The bright side of these challenges is 'innovation'. I am firmly convinced that to achieve the switch to a low carbon energy world, we need to dedicate much more attention and resources to designing more ambitious and programmatic innovation policies. Innovation has to be part of energy policy, not siloed away from it. We need an energy and innovation strategy which shapes the market for new businesses. This goes with:

- **Adopting a system approach** through an expanded and integrated perspective;
- **Nurturing public-private dynamics**, notably with a view to developing tailored demand-side policies aimed at market evolution fostered by innovation discovery;
- **Prioritising demonstration and commercialisation pilot projects** by using innovative instruments such as venture-style mechanisms;
- **Unlocking downstream innovation** by recognising the new emerging needs of power customers deriving from the achievement of a more carbon neutral power system.
- **Fostering coordination and governance of support mechanisms** at EU and Member State level through the governance for an **Innovation Union**.

The future lies with well-informed, 'energy-conscious' and active customers engaged in accommodating their demand to the needs of a carbon-neutral power system through an ever more interconnected grid model. It is my belief that electricity companies have the ability to run this transition if they can rely on a competitive and innovative environment.

Thank you for your attention.