

# Global Energy Tendencies in the electricity sector

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# **EURELECTRIC represents the EU electricity industry – all across the electricity value chain**

**ENERGY POLICY  
& GENERATION**



**ENVIRONMENT  
& SUSTAINABLE  
DEVELOPMENT**



**MARKETS**



**DISTRIBUTION  
NETWORKS**



**RETAIL  
CUSTOMERS**

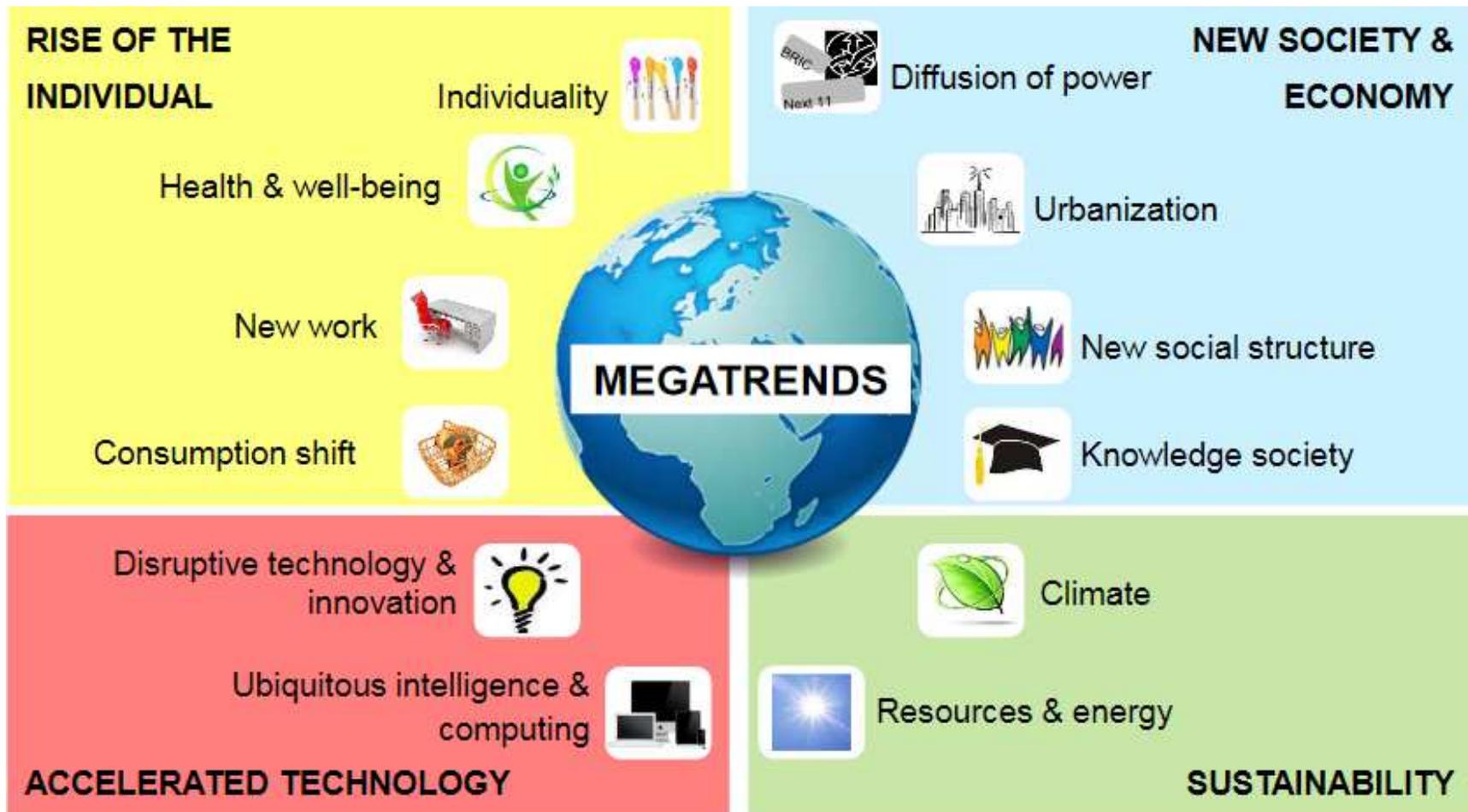


# What our industry stands for – our 5 guiding principles

We believe in:

- 1) A European, integrated approach to the entire power system
- 2) An affordable energy transition thanks to competitiveness and cost-efficiency oriented policies
- 3) Electricity as a major contribution to the decarbonisation of Europe's economy
- 4) Active and empowered customers as the core of our business and the centre of our innovation policies
- 5) A market design and regulatory conditions that ensure sufficient generation and infrastructure investments

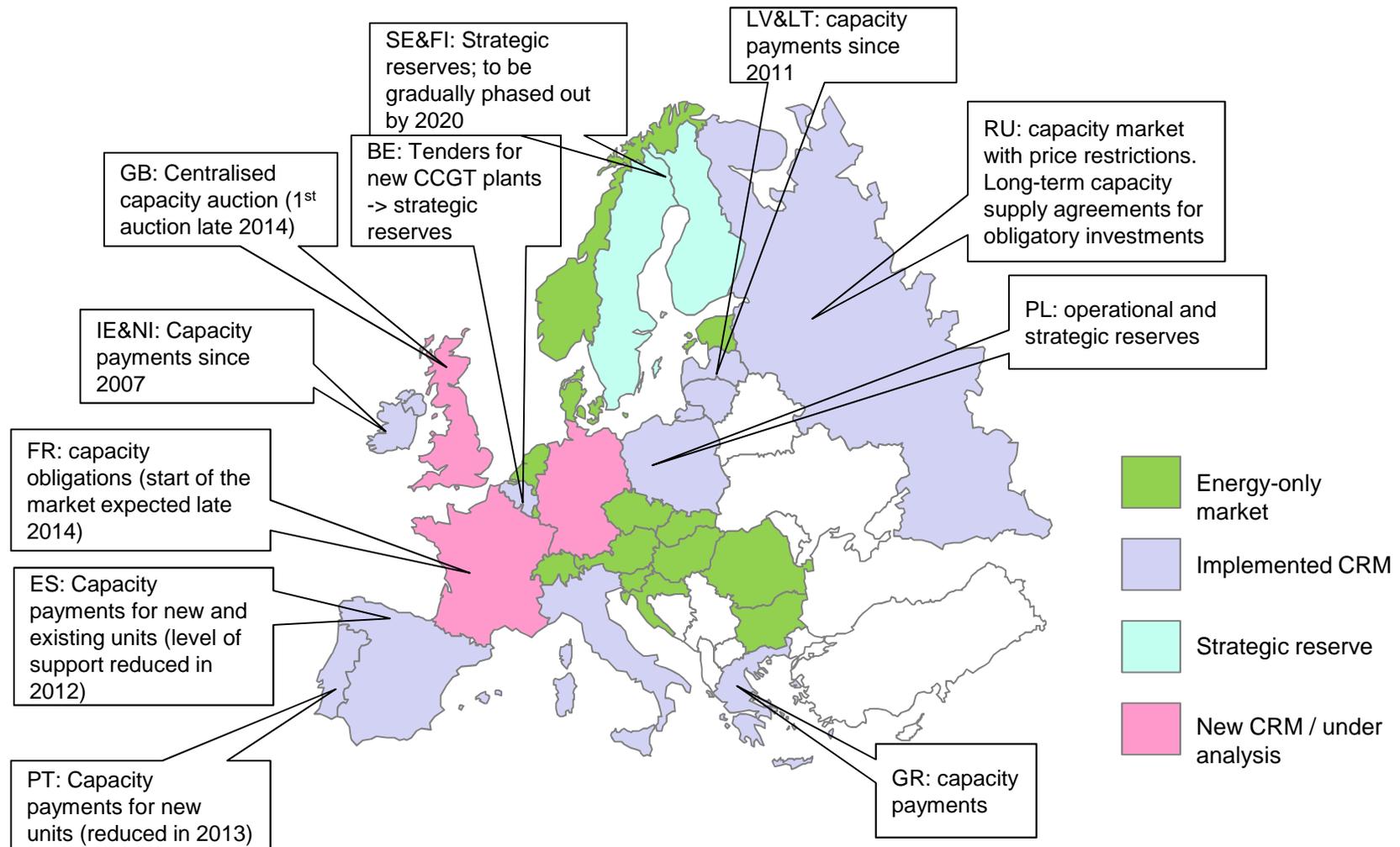
# New global societal changes are impacting the energy transition & the related decarbonisation



When we look at today's reality, we see several areas where progress can still be made

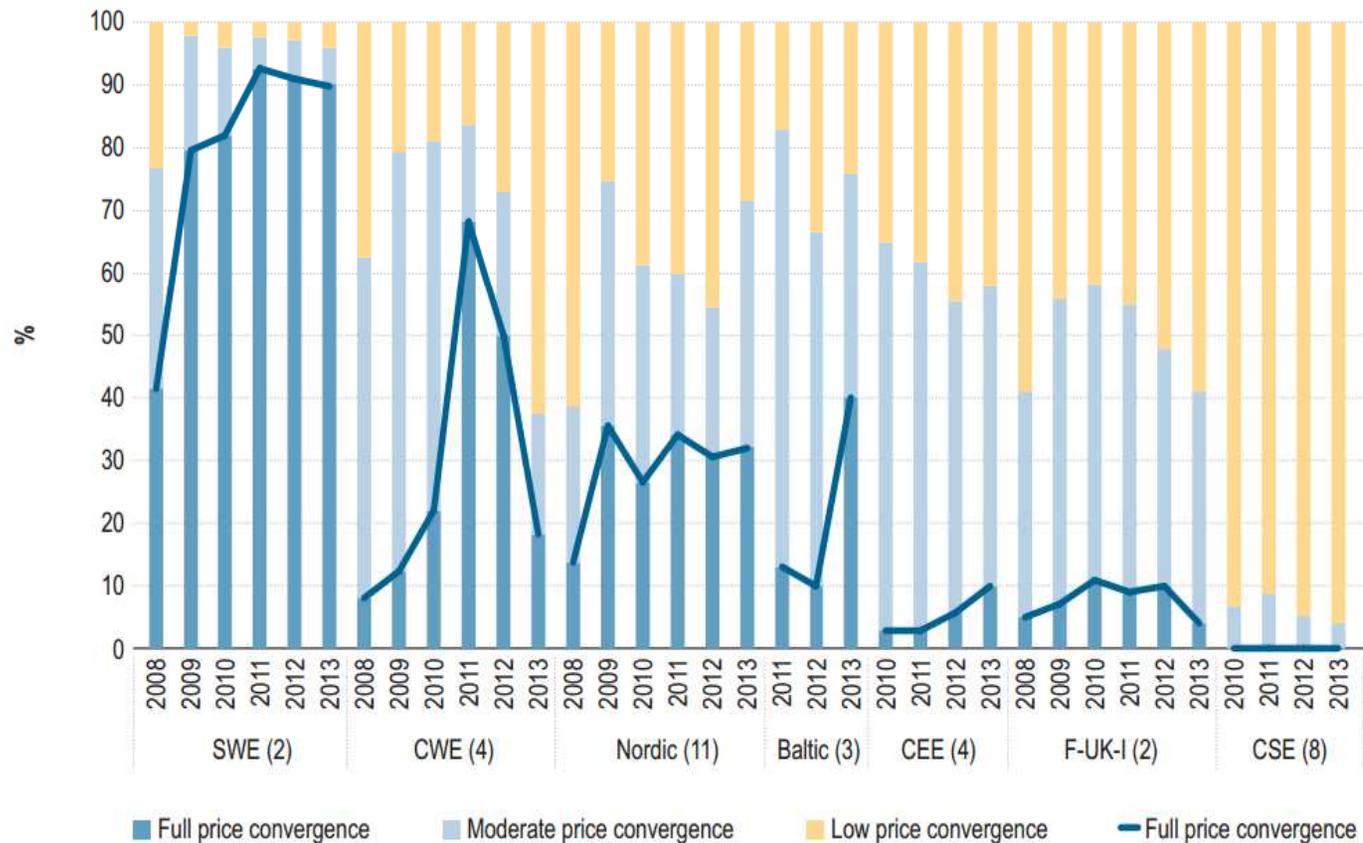


# A. European electricity market integration is still in the making: example capacity markets...



# ...while wholesale market integration needs a serious boost

Figure 37: Price convergence in Europe by region (ranked) – 2008–2013 (% of hours)



Source: Platts, PXs and data provided by NRAs through the ERI (2014) and ACER calculations

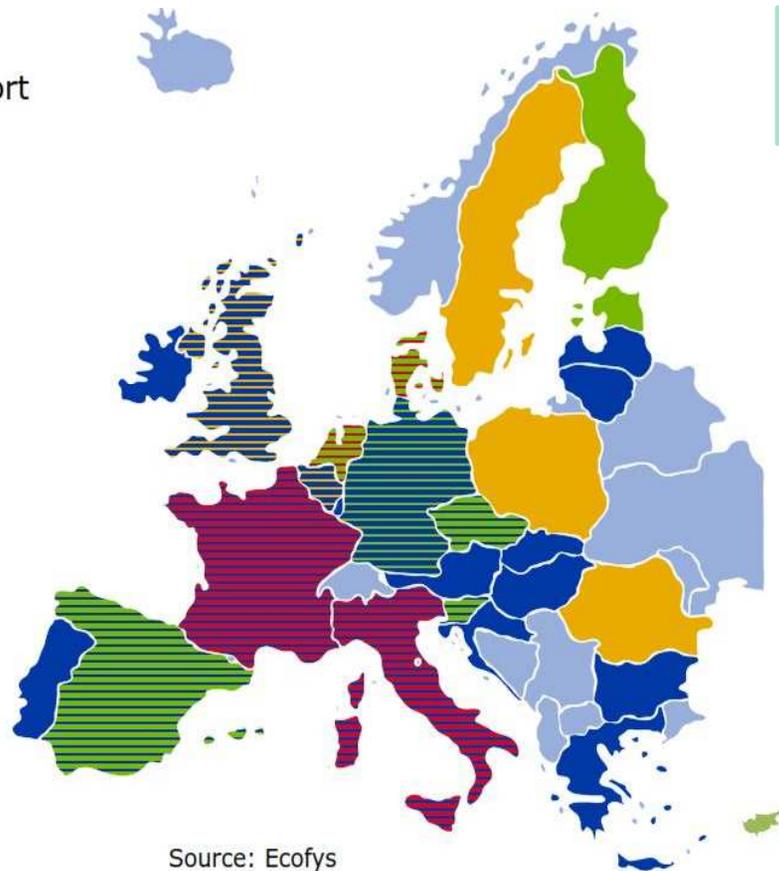
Note: The numbers in brackets refers to the number of bidding zones per region included in the calculations.

Source: ACER Market Monitoring Report 2013

## B. The low-carbon transition is more costly than need be

Diversity of RES-E support schemes in the EU-28

- Feed-in tariff (FIT)
- Feed-in premium (FIP)
- Quota
- Tenders



Note: This map does not include secondary support instruments like tax incentives, investment grants, etc.

Source: Ecofys

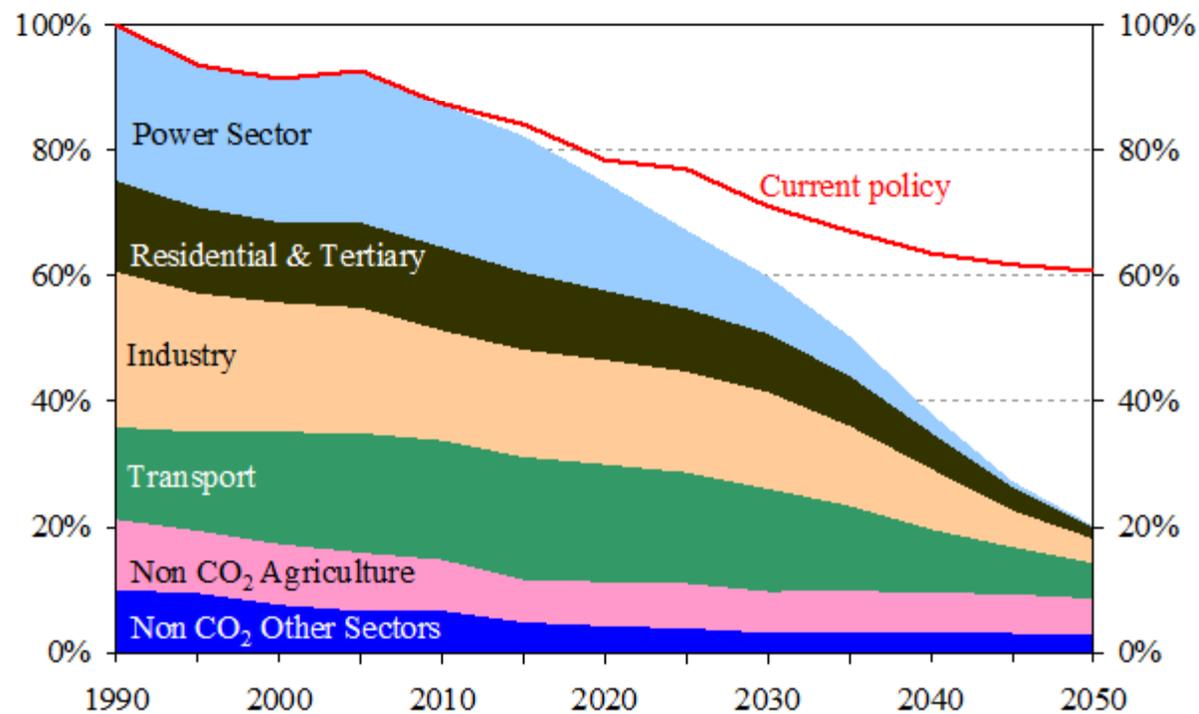
*Europe-wide ETS, but 28 national support schemes*

*Average RES unit support at 69.7 EUR / MWh*

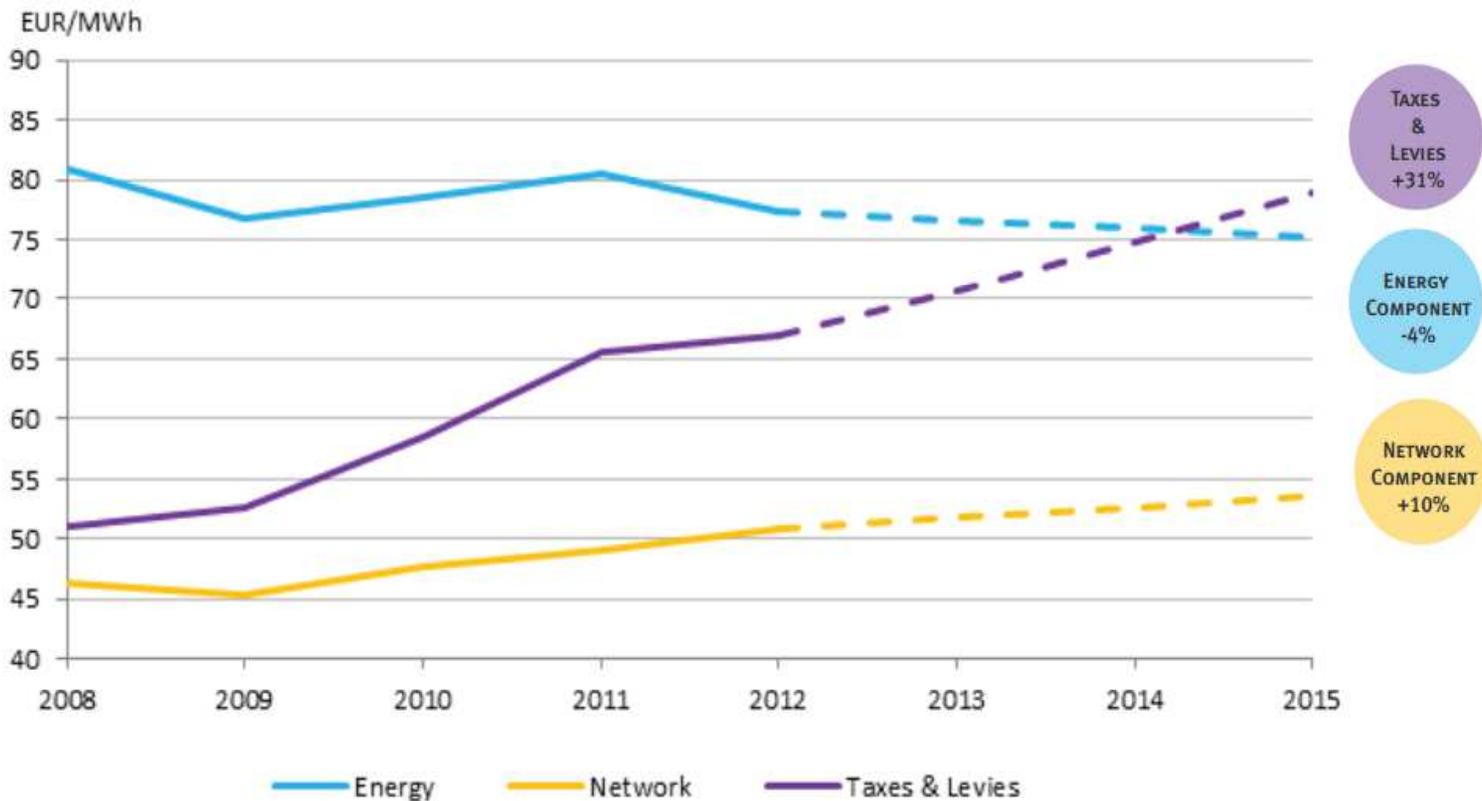
*Support totalling 26.3bn EUR in 2011*

## C. EU legislation is not incentivising the shift to low-carbon electricity in sectors such as transport or heating/cooling

Figure 1: EU GHG emissions towards an 80% domestic reduction (100% =1990)



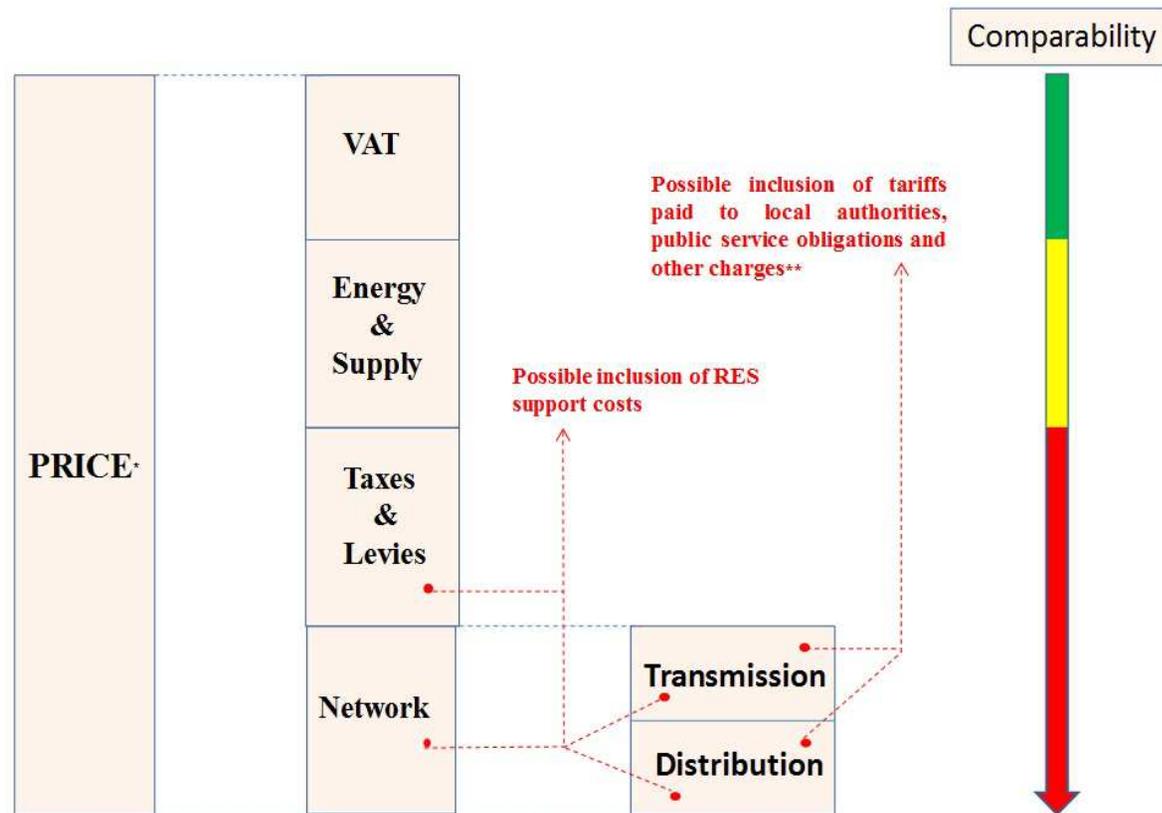
## D. Increasing taxes & levies mean that retail prices are on the rise



Evolution of Household Components

source: EURELECTRIC

# So far, customers have no visibility on this in their bill



\* Euro/MWh, display irrespective of price component proportions

\*\* Source: EURELECTRIV, Network tariff structure for a smart energy system, 2013

## E. Political and regulatory environment is hampering investments and innovation across the value chain

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Distribution network regulation to incentivise investment in smart grids?

Rapid strengthening of the ETS?

National approaches to addressing security of supply

New taxes and levies on energy

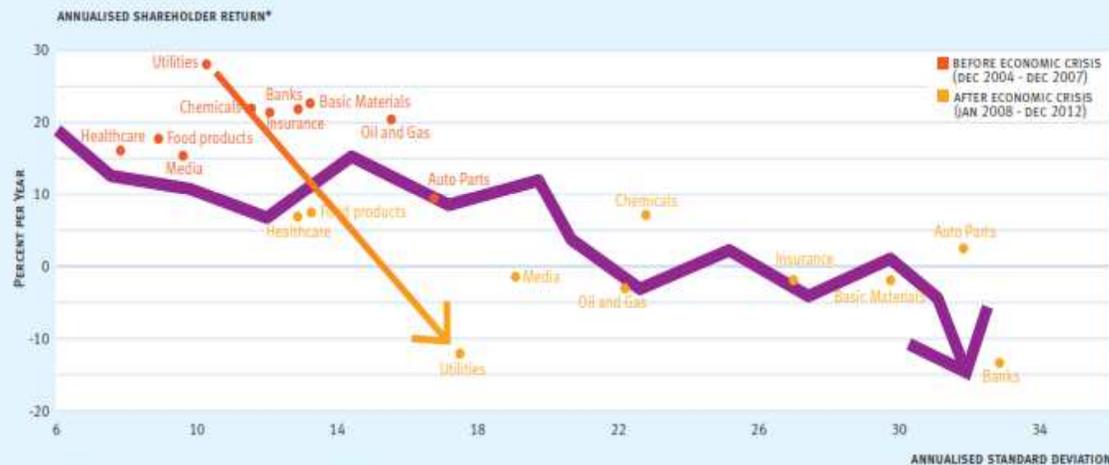
Retroactive changes to RES support

Fragmented, uncoordinated RD&D programmes

# As a result, the value of power companies is deteriorating

FIGURE 2: UTILITIES STOCK MARKET PERFORMANCE<sup>7</sup>

European utilities' stock market performance has recently deteriorated...



## Dim and dimmer

MSCI European utilities share price, \$ terms  
Jan 2005=100



**Our 5 guiding principles translate into clear **policy requirements** for the power system of tomorrow**

## **TO ACHIEVE:**

### **1. A European, integrated approach to the entire power system**

## **WE ASK FOR:**

- The completion of the Internal Energy Market
- A more coherent, European approach to energy policymaking thanks to a strong Energy Union

## **OUR RECOMMENDATIONS TO POLICYMAKERS?**

- Ensure the full and rapid implementation of the Third Energy Package
- Develop, in full consultation with stakeholders, network codes in line with the target models for the integration of day ahead, intraday and balancing markets
- Ensure that the network codes open the door to cross-border participation in capacity markets
- Strengthen ACER's role as a true European regulator
- Coordinate CRMs at EU level to make sure that they are market-based, technology neutral and non-discriminatory

## TO ACHIEVE:

### **2. An affordable energy transition thanks to competitiveness and cost efficiency oriented policies**

#### WE ASK FOR:

- The market-based ETS to be the key driver of decarbonisation
- A level playing field providing competition among all technologies

#### OUR RECOMMENDATIONS TO POLICYMAKERS?

- Strengthen the ETS by swiftly adopting the Market Stability Reserve proposal & approving the linear factor at 2.2%
- Make RES fit for the market: achieve operational integration of RES in the market; design more cost-efficient and less market distortive RES support schemes
- Support immature technologies primarily through support for research, development and demonstration
- Allow demand response actors to participate in all markets on a level playing field
- Ensure that national distribution network regulation facilitates EU policy objectives

## **TO ACHIEVE:**

### **3. Electricity as a major contribution to the decarbonisation of Europe's economy**

## **WE ASK FOR:**

- Policies to ensure Europe achieves its 2050 decarbonisation objective
- Dedicated policies to promote electricity transport and heating/cooling

## **OUR RECOMMENDATIONS TO POLICYMAKERS?**

- Implement the EU's 2030 climate and energy package
- A strong ETS to decarbonise the ETS sectors; a mix of bottom-up/top-down instruments to decarbonise the non-ETS sectors (eco-design, energy labelling, etc.)
- Review the energy conversion factor used in the Energy Efficiency Directive
- Member states should step up plans for developing public charging electric vehicle infrastructure
- More research funding opportunities dedicated to clean electric transport
- Expand the DSO toolbox in order to integrate more RES into distribution networks

## **TO ACHIEVE:**

### **4. Active and empowered customers as the core of our business and the centre of our innovation policies**

## **WE ASK FOR:**

- More transparency on the breakdown of bill cost-components
- Enabling demand side participation for household customers
- Network regulation promoting smart investments to keep long-term costs in check

## **OUR RECOMMENDATIONS TO POLICYMAKERS?**

- Ensure effective wholesale competition
- Remove regulated end user prices in retail markets
- Foster dynamic pricing
- Establish harmonised price component reporting obligations for Member States
- Make sure customers can choose between different providers of flexibility services, who will compete with innovative products
- Revise national distribution network regulation to help DSOs implement smart solutions and use the flexibility in their networks
- Promote capacity based & peak time differentiated network tariffs to ensure fairness and avoid free-riding and cross-subsidisation among distribution users

## TO ACHIEVE:

### **5. A market design and regulatory conditions that ensure sufficient generation and infrastructure investments**

## WE ASK FOR:

- A market design that properly values energy, flexibility and capacity
- Promotion of security of supply through energy sources diversification
  - Support to innovation via R&D funding

## OUR RECOMMENDATIONS TO POLICYMAKERS?

- A regional/EU approach to evaluating generation adequacy and transmission infrastructure needs, and to the implementation of capacity markets
- A transparent value of capacity as an additional trigger for investment in generation, demand side management and storage
- Streamlining of administrative processes that today hamper investment
- More funding for research, development and demonstration, e.g. for CCS, storage, power to gas, distribution grid modernisation & immature RES technologies
- Revision of national network regulation to ensure adequate and timely cost recovery for DSO investments: traditional ones (maintenance, refurbishment, expansion) and smart ones (grid intelligence)