Trans-European energy networks: guidelines

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According to the Commission Communication on "Energy Infrastructure and Security of Supply", three core themes bind the needs of the European energy market. Firstly, it must be dependable and offer consumers a secure continuous supply, secondly the energy market must be sustainable in terms of environmental performance and thirdly it must be competitive in terms of delivering an efficient service to households and businesses. It is along these three lines that this Report is structured with attention given to Europe's electricity and gas market. The shortcomings in the energy infrastructure and the security of supply are analysed culminating in proposals for future action in order to address some of the limitations identified. Concerning the electricity sector, the Report suggest that a successful electricity industry must deliver a continuous equilibrium between supply and demand while also allowing for competition between different generators and suppliers. The problems faced in the United States in 2003 as well as in Italy are clear indicators of how the electricity market can fail consumers. It is to this end that the security of supply is examined. To guarantee continuous supply cross-border co-operation on technical standards is vital. The Union for the Co-ordination and Transmission of Electricity (UCTE) has taken up this challenge by initiating work on an Operational Handbook, which aims to offer binding security and reliability rules in the UCTE network. The project seeks to strengthen compulsory security standards where the principles of reciprocity are respected and enforced. Another feature critical to the security of supply is the need to offer efficient demand management. Measures to control demand are seen as decisive. A significant reduction in demand could be made through relatively simple efforts to avoid unnecessary consumption. Thus, for example, without needing to reduce comfort or standards in living it is possible to reduce energy consumption by at least one-fifth at no extra net cost because the energy saved would be sufficient to repay the cost of investment - and all within a reasonable time frame. A stable investment framework is another feature essential if a continuous supply and fair competition is to be guaranteed. Stable conditions for future investment will need to take account of the numerous ageing plants earmarked for closure within the coming years thanks to the implementation of the Large Combustion Plant Directive. EU and national policies are already in place to promote investments in less carbon intensive technologies. Additionally, a fully co-ordinated, integrated and functioning transmission infrastructure is needed in order to protect both commercial capacity as well as the security of the network. Future investment in transmission will need to have a high degree of central co-ordination in order to deliver a rational network. This is largely because the transmission network of much of the EU is a single integrated system meaning that any new investment will have a big impact on the whole of the network. Shortcomings in transmission investments have been identified by the Council and have accordingly been given priority project status. Electricity consumers, the Report suggests, are not reaping the full benefits of the internal market nor are they benefiting from competitive electricity prices mainly thanks to the lack of crossborder capacity. The Commission notes that the level of interconnection being equivalent to 10% of installed generation capacity has not yet been met in all of the Member States. The trend for low cross-border capacity results in the largest national electricity operators retaining their dominant position. The prime responsibility for alleviating this problem lies in the hands of the Member States. Member States, under the principle of subsidiarity, have the sole right to authorise new interconnectors. The Commission cannot, for example, take measures leading directly to the construction of new interconnectors. What the Commission does propose are a number of supporting actions to be taken at the European level. They are: - A Directive concerning the energy end-use efficiency and energy services; - A Directive on Electricity Infrastructure and the Security of supply; - A revision of the TENs guidelines for electricity. Concerning measures aimed a securing the gas supply, the Report remarks that there are subtle differences between the electricity and gas market. Thus, a slightly different approach to securing a stable gas supply needs to be addressed at the European level. It is estimated that by 2030 the EU will be importing 62% of its energy needs (compared to 47% in 2000). Given that the use of gas is expected to rise in the coming years, securing an uninterrupted supply of gas is of great importance. The Report foresees important investment to transport gas from the producing countries to Europe either by pipeline or through LNG imports. The

EU-Russia dialogue is the most important example of this and will continue to be a high priority. Within this context the Commission will continue work on the completion of the proposed Directive on the Security of Gas Supplies. Regarding the functioning of the internal gas market the Commission proposes that the main objective must be for individual customers in the EU having access to natural gas from a variety of portfolios. Any such development requires a well developed network and consistent rules at the EU level. Binding provisions are needed on issues such as tariffs and the allocation capacity. Without this, network users, will be faced with a patchwork of different regimes thus reducing competition. Based on this conclusion the Commission feels the time is right to propose a Regulation on Cross Border Trade in Gas. Lastly, bottlenecks in the gas transmission network (mainly in the south western part of the EU) indicates that demand is growing and further congestion points can be expected in the future. Whilst no specific measures for this matter are foreseen the Commission is revising the TEN's energy guidelines tacking into account the accession of the candidate countries. To conclude, the Commission suggests that the Actions proposed in the Report are needed as a matter of urgency. Without these measures - and in particular a higher level of interconnection - there is a strong possibility that the liberalised energy market will not provide consumers with the benefits they've been promised. They are also considered vital if the EU's future energy supplies are to be guaranteed.