



7 November 2012

CABINET BRIEFING: Internal Energy Market progress report (draft Communication)

Dear Mr. Oettinger,

CAN Europe welcomes the work of the European Commission in ensuring the full application of Internal Energy Market legislation by 2014. Such a market will help enable the EU to decarbonize its energy system by 2050 in a cost-effective and sustainable way, as indicated in the Energy Roadmap 2050.

Energy efficiency and savings measures, renewable energy technologies and sufficient grid interconnection and inter-operability are fundamental pillars of such a decarbonisation pathway. However, some current conditions give rise to a number of market failures that:

- Prevent energy efficiency and demand side management solutions from competing on an equal basis with gas and electricity suppliers, and
- Prevent renewable energy producers from competing on a level playing field with traditional energy producers throughout the Union

With the Internal Energy Market communication due to be released on 15 November, CAN Europe calls on the College of Commissioners to:

- Continue to ensure existing legislation, including the new Energy Efficiency Directiveⁱ, is implemented on time and in full;
- Stress to national authorities that any decisions to intervene at national level, such as tendering for 'capacity' measures, must be in line with existing legislation. Such measures, if introduced, should not aim simply at securing firm capacity for its own sake. Rather these measures should aim at reducing demand (energy savings and efficiency) including the leveling of peak loads, and overall system flexibility.

These two key actions will contribute to the achievement of a fully functioning and fair internal energy market that allows demand side management and renewable energy actors to compete on a level playing field.

CAN Europe considers that capacity payments proposals in some Member States will be counterproductive and maybe unlawful in state aid terms. They only address generation, neglecting the huge potential from demand-side management, energy savings and storage



solutions and do not provide fair conditions for participation to all market players. In some cases, they do not even differentiate between flexible and inflexible supply. Such mechanisms favour fossil fuel or other mature generation capacity over demand-side and flexible renewable energy, and therefore undermine the basic goal of a single market and policies to decarbonize the energy system by optimizing resources.

CAN Europe considers that efforts should focus on providing system flexibility, from both supply and demand, rather than on incentivizing new generating capacity using mature technologies. Energy savings and demand management must be the priority element of a strategy to secure system adequacy, helping to reduce the need of overall generation capacity, particularly at peak loads, and to reduce the Union's fossil fuels import bills. Such an approach is also reinforced by the Trans-European Network legislative proposals in 2011.

On the supply side, implementing the *EU Target Model for electricity market integration*ⁱⁱ, as endorsed by the European Council in February 2011, will help significantly to optimize the capacity of the overall EU power system, including maximize the use of variable renewable energy sources and so reduce overall energy prices. Increasing transmission and distribution capacities and developing further ancillary services markets also help increase system flexibility.

In summary, CAN Europe supports the Commission's calls for full implementation of the the internal market legislation, thus creating a fair cost-competitive market for consumers and business whilst ensuring Europe reaches its short, medium and long-term climate goals.

Yours sincerely,

Daniel Fraile Montoro, Climate Action Network Europe

Brook Riley, Friends of the Earth Europe

Laura E. Williamson, HELIO International

Sara Van Dyck, Bond Beter Leefmilieu

ⁱ Specifically referring to the Article 15 of the Energy Efficiency Directive and the provisions on demand side resources in the market

ⁱⁱ Measures to achieve the Target Model include: enhanced transmission capacity allocation methods, a single European price market coupling, implementation of continuous implicit cross-border trading, a single platform for assigning long-term transmission rights