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Internal Electricity Market & Climate Policy: reconciling the two legislative packages

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EEF dinner-debate

Brussels, 27 May 2008

A golden opportunity for joined-up policymaking

The simultaneous legislative debate on the market & climate packages represents

A UNIQUE OPPORTUNITY

to ensure coherence between these two major EU policy areas

The key missions of our sector

- An obligation to « keep the lights on »
- A responsibility to deliver competitive prices & customer choice
- A commitment to reduce emissions & achieve a near-zero carbon mix by the middle of the century

Do the packages help achieve these missions?

The need for consistency

To meet environmental targets, replace ageing plants, develop the grid & meet rising demand, **the EU power sector will need to invest**

<u>€1 trillion by 2030</u>

How to deliver?

The best way for the EU to deliver on climate while offering competitive power supply is through

A COMPETITIVE, INTEGRATED

POWER MARKET ACROSS EUROPE

Both the 3rd package and the climate energy package must facilitate trade & drive integration!!!

Market integration must accelerate

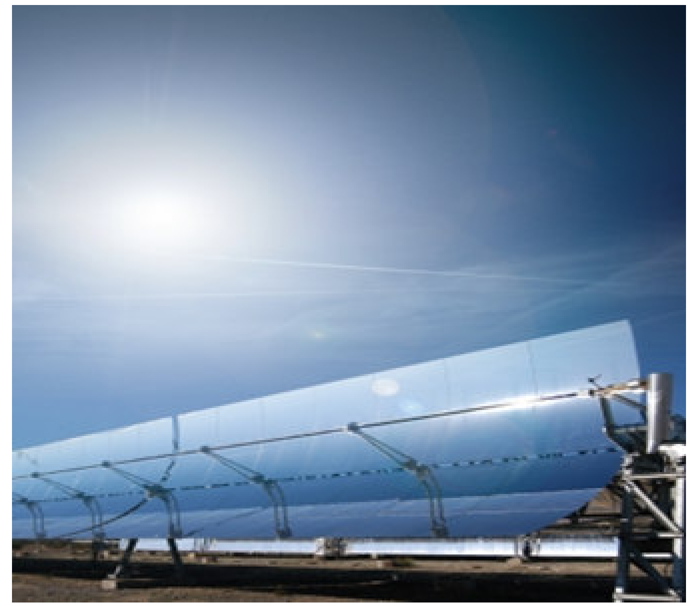
- The first packages brought progress, focusing on the national level. Regional markets must now be promoted as a necessary step to the EU market.
- The most efficient way to deliver market integration is via system operation & grid investment at regional level.
- The 3rd package should facilitate **regional integration of network operators**. Regulators & TSOs should have a duty to promote market integration.

RES must enter the market era

- RES power generation will expand significantly in the coming years.
- This expansion must be achieved cost-effectively to be affordable. **<u>Trade in RES is key</u>** to this.
- Without trade, the 20% RES target will by 2020 cost **<u>an additional €8 to 15 billion/ year</u>** & some Member States will have difficulties reaching their target.

RES must enter the market era

- **Proposed restrictions on trade severely limit cost effective delivery of target** & conflict with the principle of free movement.
- **Once subsidised, RES must be treated as any other electricity generation in the market.**



EURELECTRIC supports GOs as the best vehicle for RES trading, which should develop both between governments and between companies.

Market integration in RES must be the goal

- 27 support schemes with national targets & sub-targets distort markets and impose extra costs
- Besides the 3rd package, the RES Directive must also permit the emergence of **<u>regional/ cluster markets for RES</u>**.
- A harmonised EU incentive scheme remains the longer-term objective!


Access of RES to the grid

- New RES capacity will require major and timely investment in networks.
- RES producers should have incentives to reduce grid & balancing costs.
- Mandatory priority of dispatch for RES will create complexities & costs to be carefully balanced out with perceived benefits.

ETS: a key tool to deliver on all fronts

- EU-ETS is an effective tool using markets to reduce carbon emissions in the most cost effective way.
- It also:
  - sets a market price for carbon
  - drives investment to low-carbon generation (could deliver up to 17% out of the 20% RES target as such)
  - enhances energy efficiency
  - is technology neutral, thus contributing to energy security

Maintain core principles of EU-ETS

- A single EU cap and improved harmonisation of rules reduce market distortions.
- Current proposals provide better long-term visibility (2020 & beyond), facilitating investment planning.
- Power sector needs early clarity on auction quanta and rules to ensure orderly market.
- Market distortions to accommodate CCS, CHP or any specific technology must be avoided.

CONCLUSIONS

- Huge investment challenge requires consistent policies
- Market integration is key to increasing competition and efficiency
- Renewables can and should be made compatible with a market framework
- Core principles of the EU-ETS must be maintained.

EURELECTRIC Annual Convention 2008

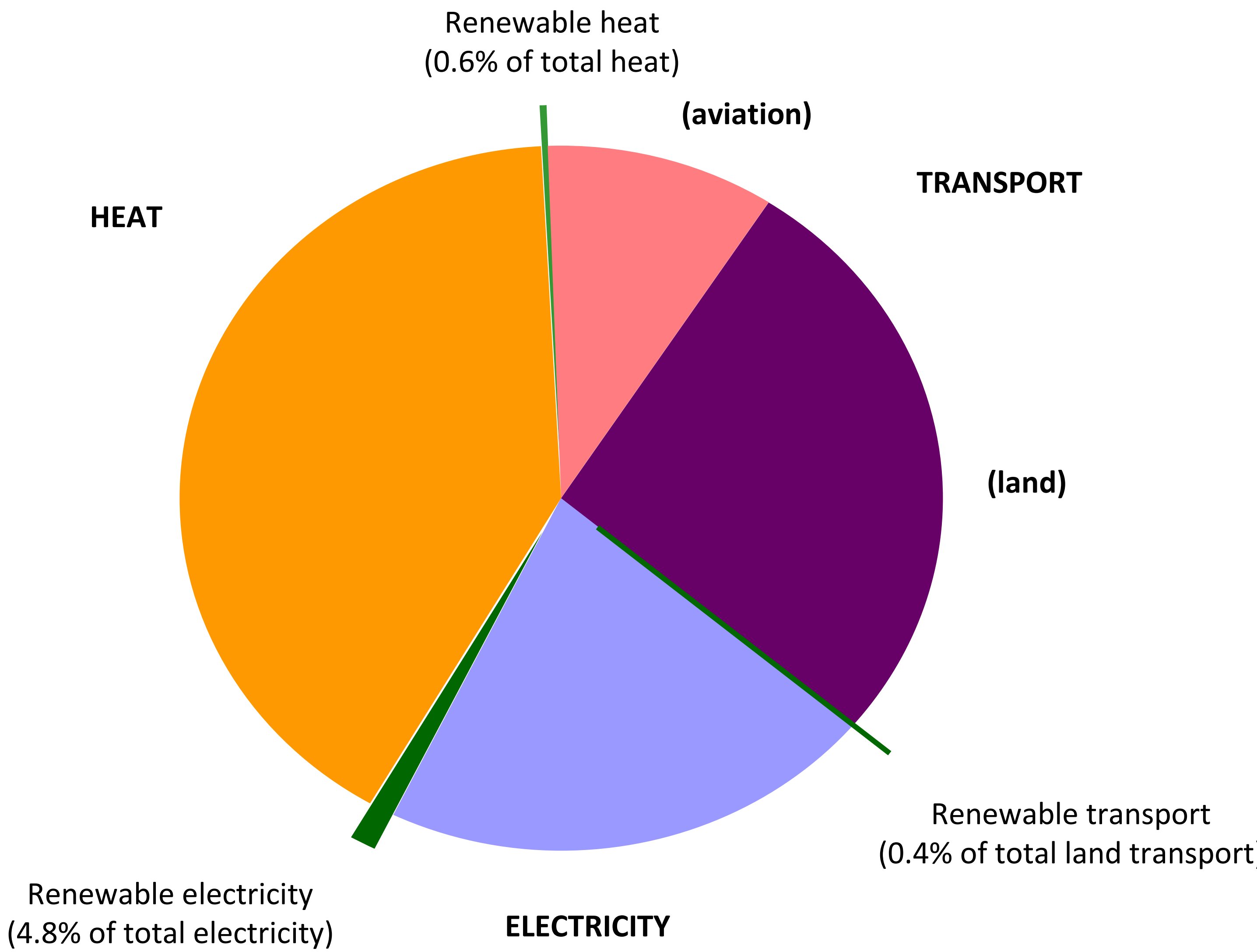
Barcelona, 16-17 June

Includes an exhibition of electro-technologies, including electric vehicles, heat pumps and efficient lighting

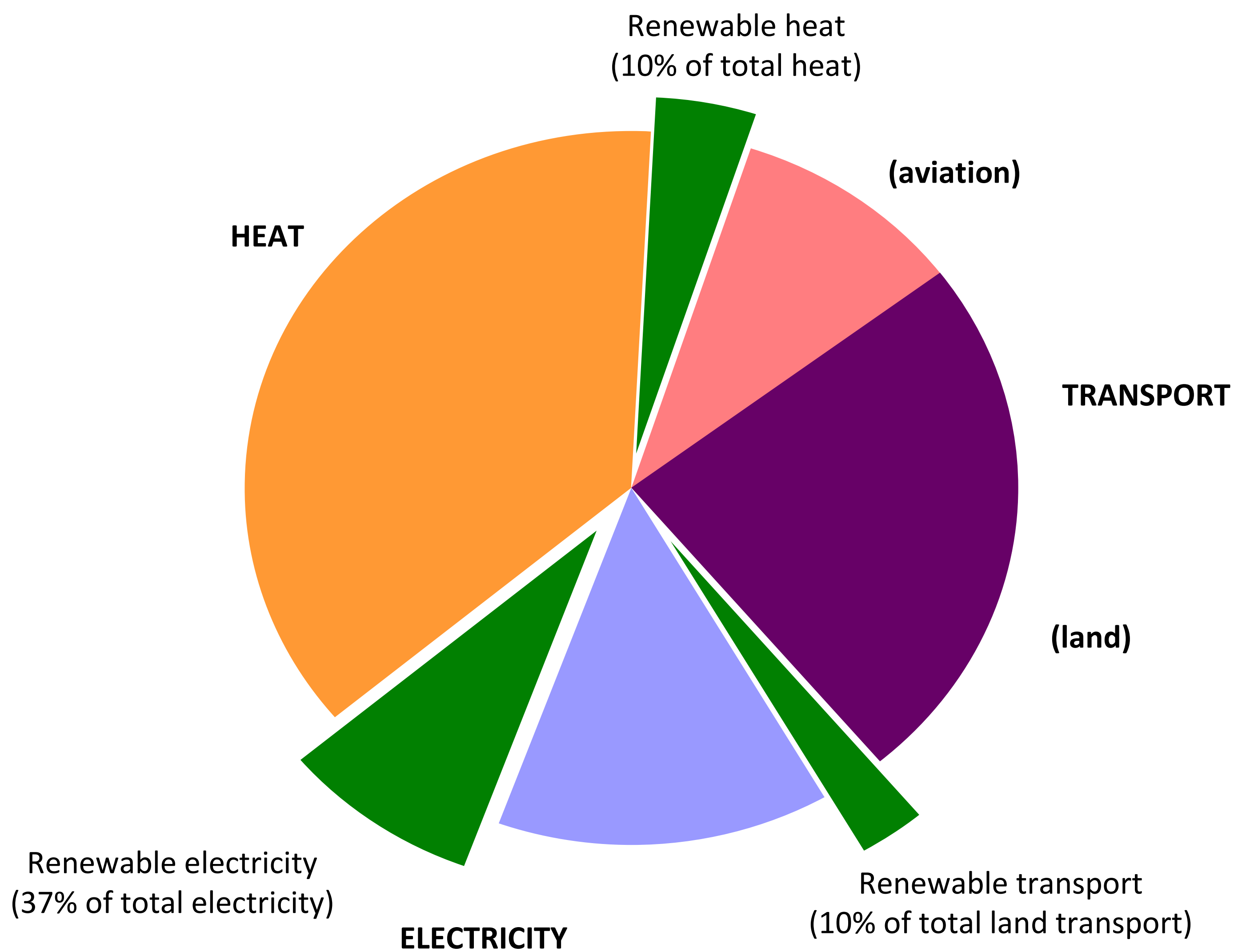
Further Information at:

www.eurelectric.org/Barcelona2008

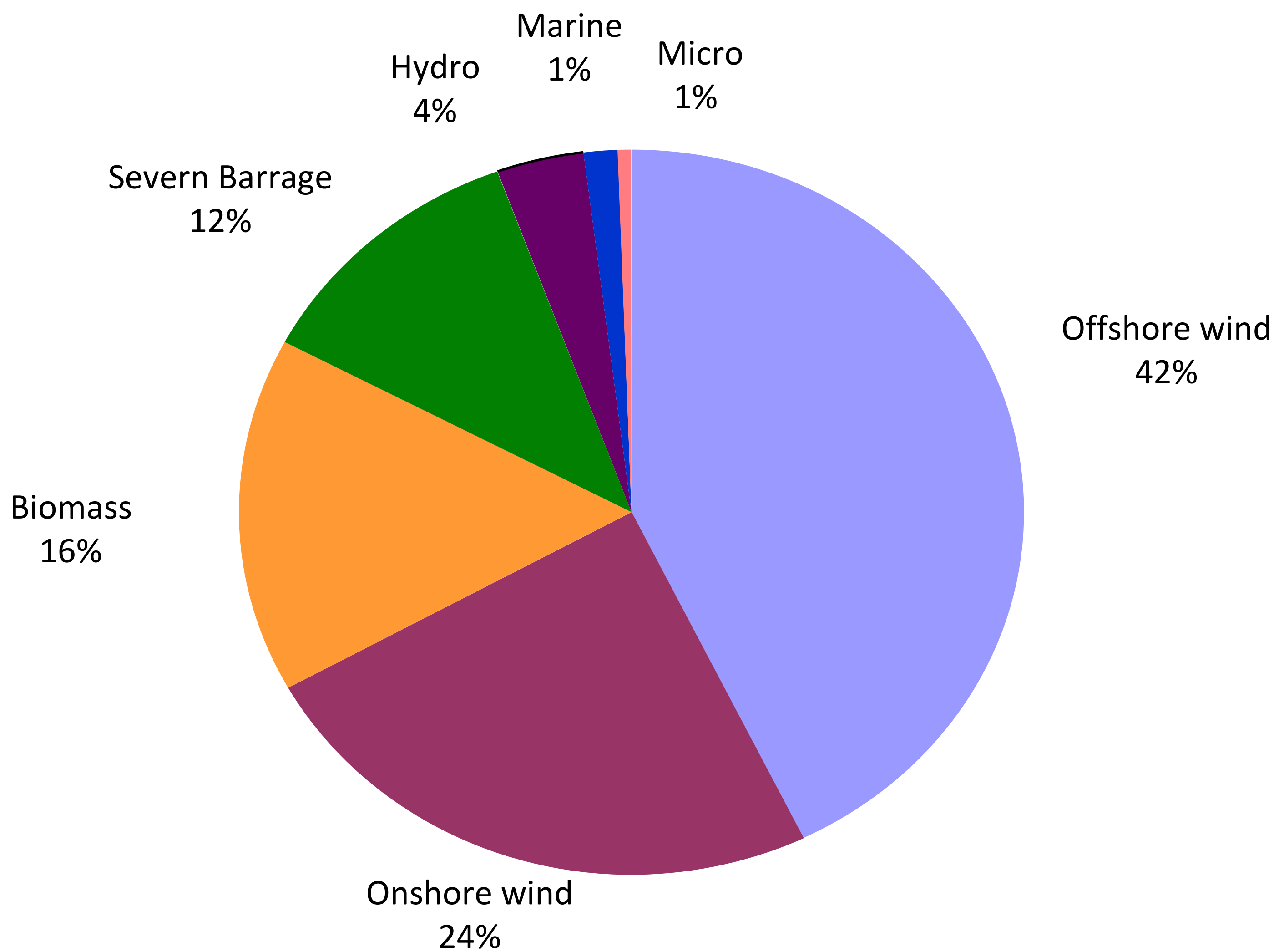
UK Energy mix in 2006



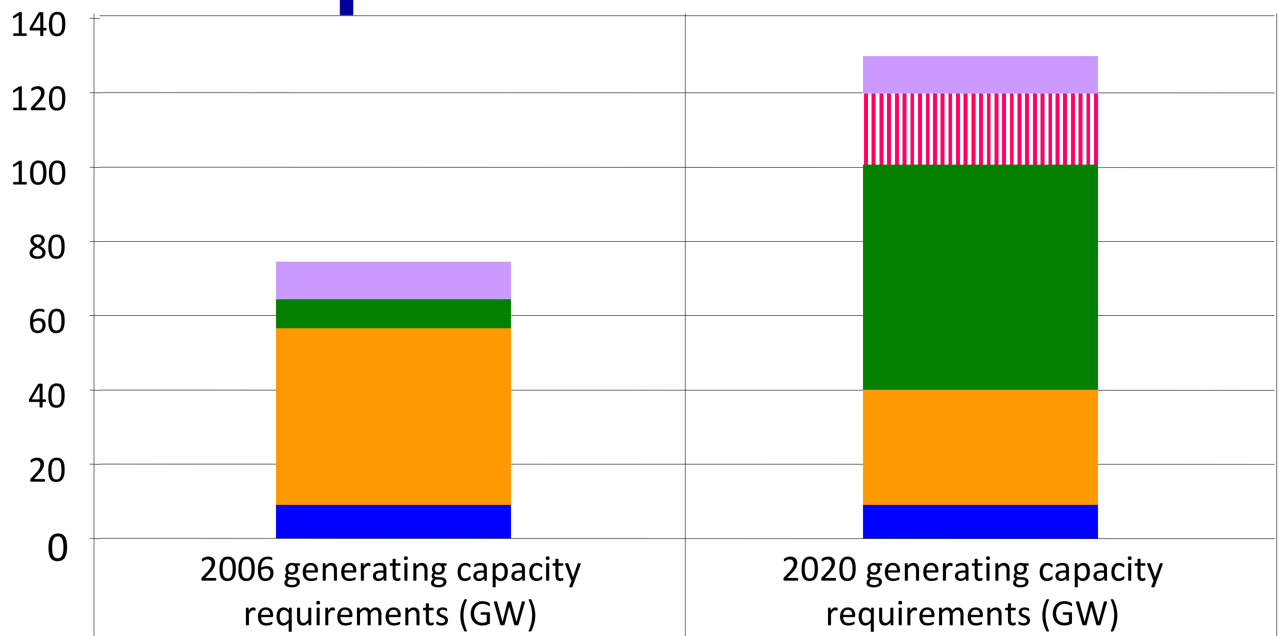
UK Energy mix in 2020



UK Renewable electricity generation by technology in 2020



UK Electricity system capacity requirements



	2006 generating capacity requirements (GW)	2020 generating capacity requirements (GW)
Plant margin	10	10
Renewables back-up		17
Renewables	5	55
Thermal	48	31
Nuclear	9	9
TOTAL	**72***	**122**

*76 GW installed in the UK currently