

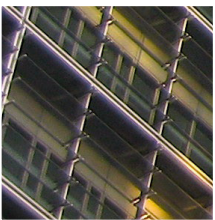
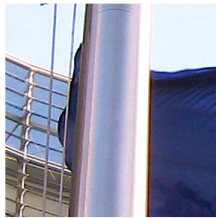
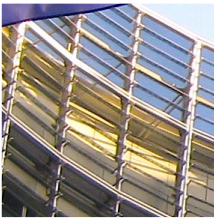
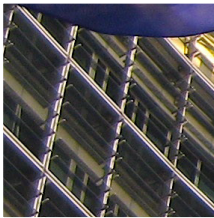
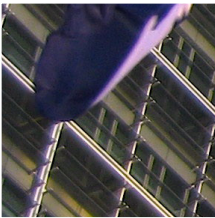
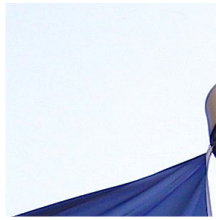
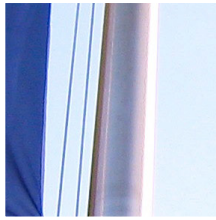
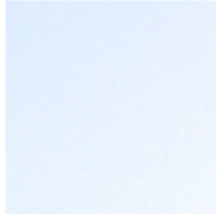
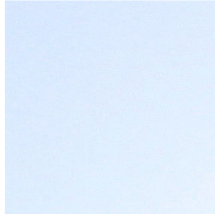
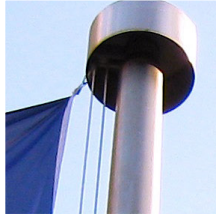
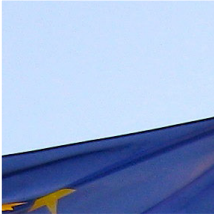
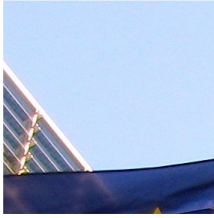
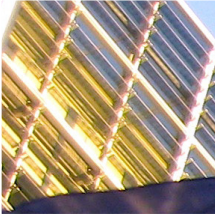


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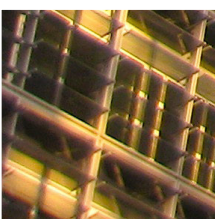
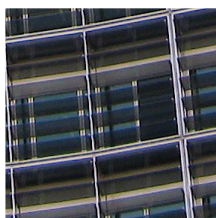
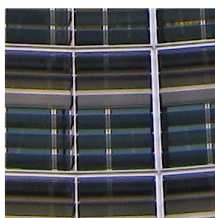
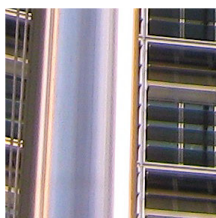
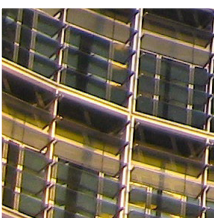
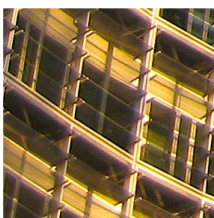
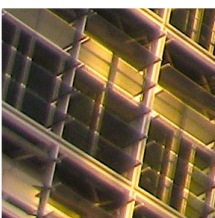
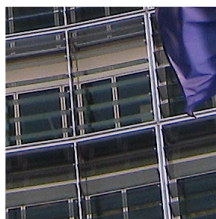
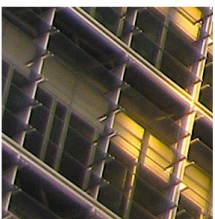
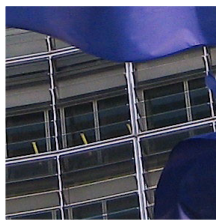


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#EnergyManifesto

A New Energy Policy for the New European Commission?



Written by JEAN-MICHEL GLACHANT

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'European flags flying in front of the Berlaymont' Image courtesy of TPCOM / Flickr.com

A new Energy Policy for the new European Commission?

Jean-Michel Glachant

No EU policy can be perfect - it will inevitably be a compromise between a good cause and a due cause. However, we are now at a critical turning point, as several pillars of former Barroso's EU energy policy have already collapsed, prompting an update or an entire overhaul.

The collapse of key energy policy pillars of Barroso's decade:

The world has cheaper and more abundant fossil fuels than expected.

The EU internal Market conceived for gas-fuelled plants competition (CCGTs) has to deal with a fierce RES subsidised push.

The EU Green Revolution (to push us as world R&D and leading manufacturer of a decade-long green growth) is gone.

Carbon pricing originated in the EU and was adopted to some degree here and there but ceased to offer any incentive to change the EU vis-à-vis GHG emissions.

The EU Supply Security is lower than at the fall of the Soviet Union, or before the Bush-Blair invasion in Iraq; and the EU has to address it by itself.

Then what are the key components that can put EU energy policy back on track toward reaching our 2020-2030 goals? The following policy brief offers a new vision of the energy policy for our new Commission from an independent, academic point of view.

For me, there are five key questions for the renewal of our EU energy policy:

1. The Internal Electricity Market: *A European crisis with any European remedy?*
2. The Internal Gas Market: *A last mile needed for achievement, but a mile too far?*
3. 28 national ways from 20-20-20 to 2030: *Could it lead the EU somewhere?*
4. Energy Policy Governance: *Is there any appropriate new framework for a new EU energy policy?*
5. External Energy Security and Policy: *At least some Energy Union – or only Energy disunion?*

1. The Internal Electricity Market: A European crisis with any European remedy?

Our internal electricity market is in a crisis because global demand is low due to the EU economic & financial crisis, and because "residual demand" for non-renewable generation is further depressed by the RES push.

The resulting wholesale power price stays very low, at an unsustainable level, impeding any market-based investment.

To recover from this crisis at the wholesale level, we see two alternative options: a "mini", and a "maxi"

Mini option for Wholesale

Concentrate on very few market fixes and let most of the incumbent non-renewables market players reach their own demise.

Mini option for Wholesale: “very few market fixes” and “decommissioning redundant gas plants”

We might then look at just a few improvements within the existing EU market design: as the opening of a “really reflexive market for flexibility” on the short term horizon, (with a view to achieving a “real time” and “balancing” reshuffle).

This limited intervention would co-exist alongside the closure (from x% to 100%) of currently redundant plants – notably the CCGTs.

Maxi option for Wholesale: A “New Power 2025 Market Deal” instead?

We could embark upon a “New Power Market Deal”, along the lines that today might be termed the “2025 horizon”:

A new market design that the EU should target, to achieve a sustainable 2020-2030 power market, capable of efficiently integrating massive renewables (both at investment and operational stage), and delivering a thorough decarbonisation system, on a market basis.

Maxi option for Wholesale: Does a “long term market based equilibrium” exist for power system investment and operation?

The “DG Competition – Eurelectric” idea that the average costs of investing and operating the renewables will, in the future, eventually meet the average wholesale energy market price (incl. carbon price), is only an assumption; the veracity of which no academic has yet succeeded in demonstrating.

Notably, the problem mostly comes from the “competitive hydraulics” of continuously injecting more energy with “near to zero marginal costs”, in a market relying on its marginal costs to price the delivered energy.

If we do not believe in a “zero marginal cost miracle”, we would have to look at creating a new market structure, attracting entrepreneurs to “power investment and operation” via long term competitive supply contracts.

RES and the other technologies will have to compete to win an ex-ante guarantee of demand and minimum revenue, with consistently priced carbon (either from a carbon market or a carbon “price guarantee”).

Of course, this long term reshuffle could be based on, or combined with, the “reliability option” in short term markets, as seen before.

To make the framework of such long term contracting truly credible for new investors, the grid system operators might have to offer guaranteed access to the grids (or, a financial guarantee of the grid access costs), in a “Financial Transmission Rights”-like market.

At the retail level we also see two options, being a “mini”, and a “maxi”

Mini option for Retail: “No Regret” for a retail innovation wave based on an EU minimal level playing field

No “smart retail” revolution is easily predictable. However why can’t the energy domain for households be next? Even if this revolution was too slow to become “today’s mass market game changer”, why should the existing millions of “prosumer households” (already conquered by PV self-generation) not be seen as big enough to start building a new retail universe as active and interactive as the power wholesale universe?

Mini option for Retail: an “EU retail minimal level playing field”

A rational, and yet prudent, EU policy should therefore look at creating a certain “minimal retail level playing field”, avoiding too much EU fragmentation into local proprietary sub-systems.

We might consider EU compatible standards of operation; a forward- looking cyber- security policy (with police mirroring our EU Air Traffic Control).

And, of course, we need minimum EU unbundling requirements, to give sufficiently open access to data, to devices, to alternative processes, offers and decision- making powers.

Maxi option for Retail: A “Golden Bridge” to a European retail innovation wave

Instead of being mainly passive and overlooking brave, private initiatives with a minimal interference of existing retail barriers, the EU could embark on a comprehensive retail overhaul, of the same scale and ambition as the wholesale power market uptake in the second and third EU energy Packages.

There is a real rationale for such an ambitious approach. The current EU market and regulatory frameworks have been mainly conceived for:

- I. Opening a wholesale market to the power plants which are connected to the transmission grids.
- II. Accessing multiple countries’ markets through cross-border rules embedded in ENTSOs network codes.

As a due consequence of this “wholesale + transmission” design priority, all of the “micro institutions” needed for reflexive retail (prosumers, demand response, “smart homes”, and their interactivity with distributions grids) have not been placed at the core of the EU system, or even taken into account.

Maxi option for Retail: a fully-fledged “EU retail & distribution innovation, demand and prosumer responsiveness Fourth Package”

The EU may establish a full and comprehensive EU “smart retail & distribution grids package”.

This “package” could address the full EU harmonisation of standards of operation for distribution grids, ITC networks and retail markets:

- I. A harmonisation of retail services, pricing processes and formulas.
- II. An integration of retail and wholesale market designs, of transmission and distribution grid codes.
- III. A seamless functioning of all countries' retail markets as a single EU retail market; a coherent grid-planning horizon.
- IV. A cooperative investment methodology dialogue between ENTSO.E, and a kind of ENDSO.E yet to be established.

Without a doubt, this agenda is very ambitious, but not much more than our third energy package already approved in 2009, after being deemed both unnecessary and unfeasible in 2004- 2005.

2. The Internal Gas Market: A last mile needed for achievement, but a mile too far?

The EU internal gas market is confronted with price and volume shocks coming from opposite directions.

The US shale gas price, which is two to three times inferior to our internal wholesale market price, while the Russian-Ukrainian conflict threatening the gas transit from East to West.

Do easy or relatively effective remedies exist that can mitigate these tensions? Or are there none?

Once again, we are left with two options: one mini ("a last mile?") and one maxi ("ten thousand miles more?")

Mini option for gas: A last mile?

The fact that the EU is facing a gas price shock coming from the West, and a volume shortage threat coming from the East, does not necessarily imply an easy implementation of efficient measures to address both concerns.

Mini option for gas: the EU internal market is good, but cannot reverse the international gas price or freeze the Russian-Ukrainian conflict

If the EU cannot control its gas supply price (by any possible unilateral action), the only achievable and robust guarantee, to minimise the average gas price risk, is to allow any gas that is "a bit cheaper" or "from a new origin" to easily enter the market and be distributed everywhere welcome within the EU, even if only for a short term gain, or as an option against a worse future.

Hence, our main task is to achieve and refine our EU internal gas market. Thanks to the gas demand crisis, the wholesale prices have already significantly converged in most of the EU (from the UK and the Netherlands to Germany and Austria, via France and Italy).

We only need to consolidate our fuzzy, underlying EU gas target model to make sure that alternative gas flows will always be able to cross any border, at any time, when any gas arbitrage opportunity arises. *To make this a reality, is only a "last mile" concern with only a few "grid access", "capacity allocation", "balancing regimes" or sometimes "market coupling" dimensions.*

It doesn't say that all EU stakeholders will always applaud this "last mile" ride.

Maxi option for gas: Ten thousand miles more to secure our gas supply?

The former "mini option gas" is flawed if it is illusory to believe that free wholesale market pricing will simply lessen a "big Eastern gas volume shock". Markets cannot always easily deal with exceptional ruptures, which have yet to be incorporated in any workable action plan. Panic and irrational behaviour are then more likely to prevail.

Maxi option for gas: The EU internal market is to be complemented by a public intervention plan

If we want to prepare for a gas "volume earthquake", it will necessarily imply public actions and public interventions. But these have to be discussed and made compatible, one with the other, as with the foundations of our EU gas system before the convulsion of the earthquake.

We need to obviate the risk that incompatible local or national public plans, at different levels and in different zones, would rapidly make the global situation far worse, or entirely unmanageable.

A measure of security is already provided for under the existing EU gas security regulation. We do hope that this has already been – or is on the verge of being – implemented via cooperation among the relevant public decision makers.

In addition to the already existing "EU security and solidarity" framework, it would be useful to create a common European monitoring system delivering a consistent follow-up of our actual global gas storage level and its variations, at some aggregate level (both EU and regional). This might be coupled with some "storage security weakness indices", which may help to signal a transparent and predictable regulatory "warning guidance" to market players at times of tension or pre-emergency (for example, when storage levels measure "too" low in mid-August).

Looking now at transformations geared toward the long term, we might also think about a new gas pipe investment regime where several TSOs could unite to build a few security enhancing "Gas International Entry Pipes" or commercially non-viable "Default LNG Terminals".

This maxi option inevitably opens many new doors to public intervention (as emergency plans, monitoring tools, weakness signalling, or joint investment in security infrastructures), that will partly change the way our internal gas market is run. But, this should not compromise or jeopardise what is already working well or, at least, not so badly, in the EU market. In that sense, our maxi option is not maximalist, but rather minimalist, while still being "at the margins of the existing" policy.

Our EU internal gas market is an excellent tool. We may try to supplement it, only where and when socially plausible, and necessary. *Security and solidarity are not enemies of the internal market if we prepare our emergency and solidarity plans as appropriately and orderly as we can.*

3. 28 national ways from 20-20-20 to 2030: Could it lead the EU somewhere?

The incoming Commission will start by following the path opened by "Barroso II" last autumn: 28 national ways to EU 2030.

The Council has already sent a warning, before the summer, not to jump from the existing “20-20-20” policy to a “30-30-30”-like step. And on 23-24 October 2014, the Council reached a minimal energy targets deal with roughly half of the Member States, from which the EU will have to build a common “Paris 2015 International Conference” strategy.

In this uncharted territory, uncertainty abounds. But, does it matter so much vis-à-vis the rest of the world?

Any retreat from our “glorious 20-20-20 revolution” of Berlin 2007 would, of course, be easier or safer, vis-à-vis the “EU 2050 community”, if we were guaranteed an honourable and reliable position, until 2050, not only from our perspective as Europeans, but also from a reasonable global viewpoint.

Hence, we are fortunate that such a legitimate “2050 policy programme safeguard” is provided by the recent report from Nicolas Stern and Felipe Calderon, issued before the UN Climate Summit in New York (“Better Growth, Better Climate: The New Climate Economy Report”, 2014).

Once again, as we head toward 2030, we are confronted with two paths, a consistent “mini” option (“Disarmament”) and a strong “maxi” option (“Two to tango”).

Mini option for 2030: Disarmament in an EU aligned with globally recommended practice?

Assume that we keep both our carbon market and our internal “dual fuel” (gas/power) market working within a 2030 Greenhouse Gas (GHG) binding constraint. What else are Stern and Calderon suggesting as reasonable tools to contribute to a robust world trajectory, towards an ultimate 2050 goal?

Mini option for 2030 targets: What do Stern and Calderon suggest to keep the world on the 2030 track toward the ultimate 2050 target?

Stern and Calderon suggest the following:

- I. *They propose the phasing out of fossil fuel subsidies (about 25 billion euro in the EU, in 2012).* It is surprising that this has not yet been seriously discussed by our brave EU. May we also assume that it would cover the many cases where the full price of the non-renewable energy mix consumed is not actually paid by the consumers, because of a regulated energy tariff deficit?
- II. *They suggest phasing out the usage of coal.* It is remarkable, that our European “Energy Transition leader” (Germany) has not yet started this process, while continuing to generate half of its power with coal. Certainly “phasing out coal” faster would imply consuming more gas, as a “bridge” (remember that the former German bridge to decarbonisation, before Fukushima, was nuclear). But, if decarbonising is our ultimate target, decarbonising is also the best way to go... Gas cannot be undermined once the process of discontinuing the use of coal begins to take effect, which may be as soon as tomorrow, or not far beyond that (perhaps by late 2015; after the Paris conference). Gas is, of course, expensive in the EU – decarbonisation comes at a cost. But, it would not be too great a shock, if the EU carbon price operated as a reward for decarbonisation, and not simply as just a number.

- III. *They propose the creation of financial instruments, which favour investments in low carbon projects.* This might also call for European public authorities to ensure all kinds of low carbon efforts are rewarded, not simply wind and PV projects. It should include any kind of energy efficiency projects recycling economies or demand side management; and even innovative and interactive EU apps to “smarten” our behaviour and devices. Equity, loans, awards, guarantees or any “smart” form of renewed “Public Private Partnerships” contracting should be pulled or pushed into competition with the present monopoly of RES feed-in financing. Of course, the bulk of the money collected through the auctioning of allowances could be re-injected there.
- IV. *They recommend the tripling of research and development expenses in low carbon technologies.* Some of the potential financing channels have just been suggested; as equity, loans, awards, guarantees; any smart form of renewed “Public Private Partnerships” contracting and “allowances auctioning” mobilisation.

Maxi option for 2030: Two to tango- Target or not; all of the EU MS cannot ignore Energy Efficiency

What greater changes could be feasibly applied today or tomorrow by the 13 to 15 Member States that were more progressive at the 23-24th October Council?

Commissioner Oettinger, the German government and J-C Juncker have already suggested “*a binding EU efficiency target*”. And Germany is preparing its “Efficiency National Action Plan” (from financing investments to pushing electrical cars).

Yes, it might make sense for many different reasons (along with many others as yet unknown).

A maxi option for 2030: a coalition of the willing Member States to beef up EU Energy Efficiency?

- I. *Voluntarily binding national efficiency target could be a balm for the wounds of the RES fans (the RES-pushing orphans).* Today in the EU, reducing the consumption of energy has the same appeal as reducing carbon, more security of supply, more investments, more “white” jobs and more technology innovation as “green” RES had seven years ago. It is certain, that the UK example of a two decade “housing demand boom”, also brings an irresistible flavour to any public policy promoting growth and employment, complementing energy consumers’ choice.
- II. *It could open a consistent framework to work together, at EU level, toward more demanding norms of product energy performance or the recycling of used products.* We might proceed to mobilise our designers, engineers, manufacturers, etc. in the building of a new set of “advanced” products and by-products. We might even reopen the question of the actual energy and recycling performances of our car industry (and other durable goods).
- III. *This could also help create a growing business of intermediaries managing the sub- contracting of energy efficiency and recycling performance delivery,* with professionals investing and participating in the conception, installation, operation and maintenance of more energy, and recycling efficient sub-systems for buildings, malls, housing, plants, universities, hospitals, military camps, etc.
- IV. *That said, there is a taste for a “white” second wave of our first “green revolution”, that could also be worrying.* Notably, who would finance the large deployment of energy and recycling efficiency? The consumers? By paying more, when buying the products or the new homes, or refurbishing the existing ones? Would the public authorities be the only ones accountable? If the voluntarily binding national

targets are not too high, the public sector can itself commit to reaching them. But how would it finance this? With more taxes and duties, or with a greater public debt? Instead, or in addition, do we expect the private intermediaries and many new “public-private partnerships” to solely undertake the deployment of this “white” efficiency boom? Might a massive wave of EU borrowing - led by the European investment bank - be one of the solutions? This is more or less suggested, by J.-C. Juncker, with his proposal to boost EU growth through an investment pyramidal scheme of €300 billion. If financing is in sight, we shall also have to avoid poorly conceived “long term efficiency contracts” locking the products and energy users into distorted arrangements, which are too favourable to the service providers (as seen in many RES feed-in over-shooting). *Any “maxi” way to 2030, via voluntary binding national efficiency targets, would need a substantial clarification of its likely business models.*

4. Energy Policy Governance: Is there any appropriate new framework for a new EU energy policy?

As predicted since November 2013, the major novelty of the EU energy policy is the absence of binding targets for each Member State, for both RES and Energy Efficiency (EE). We should therefore expect a wide variety of the policy directions and tools (including shale gas drilling) of the EU countries. And, the entire set of possible interactions between the only binding common tool at EU level (carbon pricing mechanism) and the various countries’ trajectories (for RES and EE) is, a priori, very large.

It should not matter too much, if we were to assume that only our common markets (one for carbon and two others for the “dual fuels”) would act as key interaction platforms among Member States. The existing Commission’s “market weaponry” made of (“Internal Energy Market”) + (“Competition Policy, hence State Aid”) + (“Centralised Carbon Market”) can, of course, act as a credible governance structure for a European market-based path to 2030: hence the visible alliance of DG Comp-Eurelectric at the end of the year 2013.

However it should matter, if we were willing the EU to reach some particular “focal points”, chosen as safe milestones on a preferred EU 2030-2050 trajectory. *The existing Commission’s “market based arsenal” cannot promise to reach any pre-defined EU entry gate to the last bridge, 2030-2050.*

We then proceed to once again investigate two options that can do sensibly better: a mini and a maxi.

Mini option for Governance: Basically a market-based policy framework completed by the same EU governance set coming from the 3d Package, but more comprehensive and more responsive?

Since 1990, the EU has been impressive in its continual effort to work at implementing the Single Act, in the gas and the power sector.

Perhaps all that is required is to position mature renewable energy sources within a common EU upgraded market framework [opening a relatively coherent, equitable EU platform for RES investment and operation, including reliability options; harmonising “enough” capacity mechanisms, long term contracting of carbon pricing options, and of security of demand; etc.], and paving the way to demand response and retail activation of the prosumers.

We should then be able to do it on the same institutional grounds as what the EU has done for energy since 1996 (= Internal Market + State Aid).

Mini option for governance: basically a market-based framework keeping same EU governance set, but more responsive

At the top of its market-based framework, the EU may need some particular add-ons to better deal with the task of together reconciling the differences of 28 “independent” climate responsive countries. Add-ons could be:

- I. The coupling of DG Energy and DG Climate in the Juncker Commission, if real cooperation between the two were to develop (which is certainly not guaranteed...).
- II. The Directorate “Energy Policy” (within the Energy area) could become the key expert, or a preeminent “opinion leader” influencing the migration. It is already opening its own “2030-2050 Forum” to keep a forward-looking/ progressive EU debate open, in addition to Florence, Madrid, London Fora, already dealing with a host of alternative views and proposals for the existing internal market.
- III. Both the ENTSOs, and ACER-CEER may open a responsive and structured analysis, at an EU and regional level, to decipher in rolling five-year “2025 forward- looking” assessment plans (for example, expanding their already existing regional TYNDPs), where the current market and network interactions (including the planned and likely investments) might lead us.
- IV. Cooperation between TSOs for electricity might be made “institutional”, and take the form of “de-facto” Regional Transmission Operators-E (both for operation and planning) or of ISOs with a split between Transmission owning and Operation of the system.
- V. Power Market Operators might be gently pushed or pulled into one or another kind of “European Network of Market Operators-E”.
- VI. The national authorities (the Member States governments too) should be pulled to strongly participate with proposals and best practices (as ½ of MS are actually “2030 demanding”), and be strongly integrated in the new 2030- 2050 EU Forum.
- VII. Last, but not least, it is key to open real “regional fields” for testing and experimenting (remember how the Market Coupling success between the “Pentalateral countries” paved the way to the EU power target model). Is it possible to build a few clubs of a few “pioneering MS” willing to play a leading role in better European integration for a better common energy policy? Can parts of the EU not participate in the Nordic game (where the deepening of regional integration is always fuelled from within, by one of the countries involved in this voluntary League)? Can we incorporate more consciously and more openly certain national and regional initiatives into the dynamics of a European- oriented 2030-2050 debate? Should we get more from the North-Sea or the Continental-Visegrad initiatives?

Maxi option for Governance: Let’s be brave. Only an Energy Union could make it

The weakest point of the above ‘mini option’ is to pretend to reach for a demanding energy target, on a preferred trajectory to 2050, while using only the traditional EU arsenal for market harmonisation and integration.

Not many, but some in the Europeanised elite also think that countries’

NRAs (with their ACER) and countries' TSOs (with their ENTSOs) are not homogeneous enough and bold enough to make the necessary leap. This is why - if the EU really wants to deal with demanding energy trajectories - the EU might have to build a "consistent enough" and "persistent enough" energy governance.

Its framework should not be any more of a gamble, "each semester", to find out if the Council (or the Florence & the Madrid, the London & the Berlin Fora) will back the governance needs of the 28 chariot convoy until 2030.

Maxi option for governance: a market-based governance + Third Package institutions won't make it – only an "Energy Union" could

Hence, we actually need an "Energy Union" to make our 2030 to 2050 journey perfectly work - a common institution having the legitimacy and powers to deal with the continuous 'Europeanisation' of a demanding EU energy policy trajectory. This is reasonably obvious. But, what is not so obvious is how to get there.

We may see, both behind us and ahead of us, that the severity of the EU financial crisis didn't give our Central Bank a free hand in the management of the crisis. The Council - and the inter-governmental deals - continuously intervened or vetoed; co-intervened or co-vetoed.

To go to an Energy Union as a common institution for our energy policy, we will need the Council to open the fray and disarm for the common good of EU energy. How do you get to that? It seems that a greater Europeanisation of our energy mix, and of our many alternative sustainable energy trajectories, is not as appealing today, across Member States.

It is exactly what the Council was unable to swallow last year in 2013, as this year 2013, in the redefinition of the EU 2030 strategy.

Nevertheless, could any "Energy Union" rescue us? Even if not by magic, it could be the balm to our wounds:

- I. A "common house" to put all of our existing renewable sources together, in an open internal energy market, revamped for massive renewables.
- II. A planning office and an investment fund to upgrade our energy storages, grids and IT infrastructures, to strengthen our common energy reliability, our common renewables market, and our coming "Internet of Things", which will inevitably revolutionise the way households manage their homes, their domestic devices, their heating and their energy bills.
- III. There may also be a framework for better common gas and power security, and more generally, a common energy security policy overseas.

Might today's "EU energy security" emergency work better at institutionalising an EU common energy house?

Indeed, something might be coming from this front, because most of the EU feels the threat of a foreign heating emergency. But, we do not see how this heating security threat could open an institutional path to 2030-2050, except through a "Binding Efficiency Target", which has already been refused by the Council, as a promised reduction of dependency on imports.

So to sum up this “maxi” 2030 governance issue: Yes, an “Energy Union” could provide a more favourable trajectory toward 2030-2050; even if, prior to 2030, our common “day to day” policy mainly relied on market interactions.

However, up until 2030, the “Energy Dis-Union” seems more likely, than the Union. And the dilemma of “28 drivers on a single path” could keep running for the entire duration of Juncker’s Commission.

5. External Energy Security and Policy: At least some Energy Union – or only Energy disunion?

The presumably weak state of our common 2030 trajectory will not necessarily spoil the outcome of the EU external energy security policy.

The key question here is slightly different: are these security issues increasing mainly, or solely, at the MS level or, are they also mounting at an EU level?

As it seems to be both yes and no, we are faced with a ‘mini’, as well as, a ‘mini+’ and a ‘maxi’ option.

Mini option for External energy affairs - Keep our nerves and make only a few amendments to the internal market

The EU energy policy has not yet been conceived, and does not have to deal with a fully-fledged energy security vis-à-vis international blockades, rogue states or terrorists threats.

It would be a strategic policy mistake to expect from our internal market, our energy industry, our energy assets investment and operation, as well as from our energy regulation and policy, something which can only come from some really bold “state action”. By nature, in this mini option, the big external shocks are primarily managed at governmental or inter-governmental level, and belong to Member States’ heads and machinery.

Of course, it could involve the Commission as the inter-governmental agent of the EU states; as well as others, like NATO etc.

Mini option for External Energy Affairs: Our greatest friends for foreign affairs are our combined internal energy markets

In a mini option, our two greatest friends for our energy security are our two, intertwined “dual fuel” markets for power and gas.

It is because large continental energy markets reduce the operational size of the shocks that we receive, while enlarging the basins of “alternative available resources” responding to these shocks. *Being bigger and still responsive enough, we are simply more resilient to shocks.*

Of course, we also can do a bit better within our existing internal market framework - as we have already seen above, for gas:

- I. It could be TSOs teaming up for building a few new “international” gas interconnections as gas pipes or LNG terminals.
- II. It might cover a set of common monitoring tools, alarm indices, and regulatory triggers.
- III. It could also be the creation of a more consistent EU framework for power security, with a new regulation inspired by the already existing gas regulation (with clearly pre-defined roles for market, planning, regulation and solidarity).

All of these are amendments which touch upon the EU market universe, but do not diminish it.

These alterations aim to improve it, while not undermining the good EU market world, which already works.

Mini option+ for External Energy Affairs

EU Markets won't make it by themselves, because of the scale of external problems, arising from our borders and affecting our internal markets.

The mini+ option does not contest that our internal energy market(s) work(s). It only points out that things do not work so well at the EU borders of our internal market.

The ‘Europeanisation’ of the borders of our internal market is not only unfinished; it is just beginning. Hence the saga of the Gas South Stream (and, before that, the North Stream) where many EU MS play their own national game with external energy providers, regardless of any cohesion or consistence with our common energy policy.

It is as if energy wasn't to be traded in the EU, within a common trade and investment regime, a common long term supply contracting order, and a common infrastructure and interconnection access framework

Mini option+ for External energy affairs: a full Europeanisation of all borders and of Foreign interactions

To be really and fully achieved, our internal market has to be realised not only “inside” the EU, but also at all of its borders. Hence, a lot of work has still to be done. This question could be addressed in different orders, and at a different pace and depth.

We nevertheless know that we have a lot of questions in this regard:

- I. Foreign trade and investment regime
- II. Supply contract framework
- III. Infrastructure access and unbundling
- IV. Network and interconnections reliability and adequacy
- V. Value added to our “security of supply” at EU level

- VI. Value added to our “energy sustainability” at EU level, etc
- VII. This questioning can go as far as “buying energy together abroad”, as Commissioner Oettinger liked to say, and Polish leaders liked to repeat.
- VIII. It can also simply start by clarifying what is our common house for trade rules and an investment regime, supply contracting, interconnection access, and infrastructure unbundling. If we were to advance further (which means, beyond the internal side of our internal market borders, as with Oettinger and the new Polish head of the Council, Tusk) the big issue we might have to confront is to start integrating our own “internal market” with our existing external “Energy Community”. A Community which, in principle, already extend our internal EU market... Could we think about reinforced integration tools as common grid codes? Extended TYNDPs? An articulated infrastructure package with PCIs and “connecting facility”? Amplified by a pro-active European Investment Bank? To end with co-ordinated security of supply regulations, solidarity and emergency action plans?
- IX. Another foreign area, awaiting hard road repairs, is our neighbourhood policy (let’s say from Morocco to Turkey). Two points are already in mind here:
 - The need to assess the actual infrastructure regime(s) that EU MS practise, with the countries belonging to our “Neighbourhood Belt”;
 - In the same vein to assess the actual “status quo” or the ramping implementations of article 9 of the 2009 Renewable Energy Directive (by any of our EU MS, with any of our neighbouring countries).

At the very least, we need to know the actual MS’s practice in relation to neighbouring countries, following a succession of grand proposals (such as the “Union for the Mediterranean”) and ambitious reports.

Maxi option for External energy affairs: An Energy Security Union for European Energy Foreign Affairs?

Refining or strengthening our internal market(s), at our borders, or a bit beyond them, will not critically improve our resistance to hard external energy pressures, and shocks... in today’s state of the world, with unprecedented disruptions and threats from our continental East – and neighbouring Middle- East - to our Southern shores.

Markets cannot tackle such threats. It is simply not their job. Only an Energy Union can deliver external energy security to the European Union. Will it ever come?

Maxi option for External energy affairs: only an Energy Union can deliver energy security to the European Union

To significantly improve our EU energy security, in the present “state of the world”, is a “state affair”. We might expect our MS to react together, but we cannot be sure of this, and we cannot predict what kind of “inter-governmental” deal may follow, or what possible role there may be for the Commission. We also know that NATO already exists, and that, just after it was expected to somehow retire (at the end of 2013), it was resurrected (during the summer of 2014). But, what can it achieve? And, how will it determine EU energy security, infrastructure security or cyber security? These are all questions that need further investigation.

The only thing that we really know, is that having an EU with its own “Energy Union” already working within its borders, would also give a credible background to a policy aimed at “securing the energy surroundings” with key neighbours. But we are still so far from it. What did we achieve this past decade with Ukraine, or Turkey or Azerbaijan?

6. Conclusion (1st of December 2014)

To conclude, as any academic would have said in any case: there are mounting questions and challenges, with no shortage of things to worry about for the foreseeable future of the EU energy policy.

To the incoming Juncker’s Commission, Commissioners & VPs, as to Parliament and Council, all our best wishes of good luck and good work!

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