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WORKING DOCUMENT

on Improving the security of energy supply by developing the internal energy market: more efforts needed

Committee on Budgetary Control

Rapporteur: Brian Hayes

Introduction

Security of energy supply has become a major issue in the European Union over the past decade. Governmental and public concern has focused on the risks associated with dependence on external sources, political uncertainty of both external suppliers and transit states and the potential for disruptions to energy supplies. The EU has adopted a range of legislation to support the development of an internal energy market. It provided a budget of 3.7 billion euro of financing for energy infrastructure between 2007 and 2013, with a further approximately 7.4 billion euro to be provided between 2014 and 2020.

The aim of the audit was to determine whether implementation of internal energy market policy measures and EU spending on energy infrastructure have provided security of energy supply benefits effectively.

ECA findings and observations

The ECA arrived at the conclusion that:

- the EU's objective of completing the internal energy market by 2014 was not reached. Financial support from the EU budget in the field of energy infrastructure has made only a limited contribution to the internal energy market and security of energy supply; the EU is still a patchwork of local, national and regional markets rather than a single internal energy market;
- problems remain with the implementation of the EU legal framework for the internal energy market. Important differences in how Member States organise their energy markets can hold back further development of the internal energy market;
- the energy infrastructure within and between Member States is not yet suited for the internal energy market. In practice, insufficient infrastructure capacity within a Member State can hold back potential imports and exports and the extent to which a Member State can act as a transit country;
- the EU has several funding instruments to support energy infrastructure projects, but none have the internal energy market as a primary objective. EU co-financed energy infrastructures have a limited impact on the internal energy market;
- energy regulators face challenges in fulfilling their tasks on both national and EU levels;

ECA recommendations

In light of its findings the ECA recommended that:

- with the internal energy market not yet having been completed, the Commission should complete its assessments and initiate any necessary infringement procedures against Member States by the end of 2016;
- the Commission should identify cross-border energy infrastructure that is not being used to its full potential to support the internal energy market, either because it is tied up in long term bilateral contracts not allowing third party access, or because its technical capacities, such as reverse flows for gas, are not being used;
- the Commission should make legislative proposals on how to make its decisions to

select energy infrastructure projects for funding subject to the proper and continuous functioning of the energy market in the Member States;

- Member States should make sure that their National Regulatory Authorities (NRAs) are independent and not face restrictions to the scope of their role. The NRAs should have sufficient resources available for their activities, including allowing them to participate fully in EU-level cooperation activities;

Additionally the ECA recommended that the Commission should:

- assure that the Agency for the Cooperation of Energy Regulators (ACER) has the necessary powers to obtain from key institutions in the Member States the information it needs to carry out the tasks assigned to it;
- promote widespread development of transparent trading mechanisms for both gas and electricity. This should include facilitating and supporting the establishment of exchanges in Member States where they do not currently exist or where B2B trading mechanisms dominate;
- expedite the process of comitology, with a view to securing approval of the electricity network codes by the end of 2015. It should also encourage ACER and the ENTSOs to and support early implementation of network codes by Member States in the framework of regional cooperation initiatives.
- consider establishing electricity interconnection objectives based on market needs rather than on fixed national production capacity;
- reassess the potential costs and benefits of the gas target model, and consider, in the light of uncertain demand, whether there are alternatives to the extensive construction of gas pipelines, such as the installation of strategically placed LNG terminals to serve one or more national markets using internal energy market compatible solutions. This should be based on a comprehensive EU level needs assessment;
- work with stakeholders in the Member States in order to improve the extent to which such infrastructure is actually used continuously for the benefit of the internal energy market;
- explore the benefits for setting up regional transmission system operators (TSOs) as a means to encourage and manage efficiently energy flows across borders, making the most of existing infrastructure.
- draw up a comprehensive EU level energy infrastructure needs assessment as a basis for the development of internal energy market, this should function as a reference to other strategic documents such as TYNDPs;
- put in place, to support the needs assessment, a capacity to model energy markets including a broad range of demand projections, either in-house or in ACER;
- work with ENTSO-E and ENTSO-G so that the needs assessment functions as an input for internal energy market related infrastructure planning in the EU, including Ten-Year Network Development Plans (TYNDPs).
- refine its planning procedures and in particular the prioritisation and funding of Projects of Common Interest (PCIs) in the light of a comprehensive EU level energy infrastructure needs assessment;

Recommendations by the rapporteur for possible inclusion in the 2014 Commission discharge report

The European Parliament requests that:

1. In order to achieve a proper and continuous functioning of the internal energy market, Member States must co-ordinate their investments to energy infrastructure and the way they regulate their energy markets, in order to ensure optimum value for EU money.
2. Energy Market reforms must start at a Member State level. Implementing the jointly agreed energy packages, especially the Third Energy Package would create conditions for the realisation of the internal energy market.
3. Individual Member States must ensure that they have the necessary infrastructure in place to export and import energy but also to act as a transit country for electricity and gas.
4. Strengthening and improving interconnections with neighbouring Member States be seen as a priority.
5. Implementation of strategic infrastructure projects shall contribute to medium and long term aspects of energy security.
6. The European Commission allocate increased financial resources and powers necessary to the Agency for the Cooperation of Energy Regulators and that it should be allowed to recruit additional staff in order to enable the full and effective implementation of the monitoring of energy markets.