

**Committee of the Regions****ENVE-V-033****102nd plenary session, 3-4 July 2013****OPINION****MAKING THE INTERNAL ENERGY MARKET WORK****THE COMMITTEE OF THE REGIONS**

- is firmly convinced that small-scale energy producers should have easy access to energy networks/smart grids. Sound rules should be developed, by means of which households and small producers are encouraged to invest in micro-production of energy, for the entrance of these new suppliers to the networks;
- doubts whether the proposed EC measures are satisfactory to empower consumers and to combat energy poverty and demands special focus to be given to the protection of consumers. In this respect, attention is required for the asymmetrical position of energy users vis-à-vis huge companies;
- calls on authorities to address the issue of incentives for the right market investments in generation, transmission, storage and supply/demand balancing facilities and recommends that, next to existing programmes (EEPR, the Connecting Europe Facility, EU Cohesion Policy, TEN-T programme, Horizon 2020), new means of financing for the realisation of infrastructure should be sought for;
- strongly supports the urgent need for the modernisation of existing grids and developing smart grids, and endorses cooperation in the development of smart grids at European, national and regional level and the development of European standards for smart grids;
- emphasises transparency and the participation of citizens and communities in grid planning, development and implementation.

Rapporteur

P.G. (Piet) de Vey Mestdagh (NL/ALDE), Member of the Executive Council of the Province of Groningen

Reference document

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Making the internal energy market work

## Opinion of the Committee of the Regions – Making the Internal Energy Market Work

### I. POLICY RECOMMENDATIONS

#### THE COMMITTEE OF THE REGIONS

##### A. *Opening up markets and creating a level playing field*

1. states that regional and local authorities play a crucial role in the EU energy market, and underlines their contribution to achieving the internal energy market and reducing differences between Member States. Moreover, local and regional authorities, as the closest link of government to citizens, thereby providing ample communication possibilities, have a direct experience of many of the problems persisting in the EU energy markets regarding competitiveness, transparency and overall regulation of the energy sector;
2. is in strong support of the realisation of a completed internal energy market which will allow regions to focus on their regional strengths, thereby developing a region-specific decentralised and renewable energy sector from which local and regional knowledge infrastructure, economy and labour market will benefit. The CoR suggests a strategy to be rolled out to support the development of regional clusters (specialisation) and partnerships and advocates to allow frontrunner regions – with knowledge on innovation systems, working renewable energy markets, roll-out of smart grid systems etc. – a bigger role in filling the gaps that currently exist in the European energy landscape;
3. calls for the development of Regional Energy Plans, in which projects for energy generation, transport, storage and distribution, the realisation of necessary infrastructure and regional schemes for improving energy efficiency and energy saving are included, as supported in its Opinion on the 3rd legislative package, CdR 21/2008 fin. Such region-specific Energy Plans, which may be drawn up at the level of regional authorities or encompassing a number of regions, including in neighbouring countries, should be properly co-ordinated and integrated at both national and Community level;
4. supports a more active enforcement of the 3rd Energy Package and the start of infringement procedures and stresses the need to enforce vigorously competition rules to ensure a level playing field for all market players, including new entrants. Member States with still only one supplier, should be compelled to eliminate market entry barriers and assisted in developing (cross-border) infrastructure so that consumers will have the opportunity of free-choice of supplier throughout the EU. The production and price liberalisation coupled with effective coordination at EU level, may help institute a fair balance of resources among regions in Europe stabilise and improve the framework conditions for the European energy sector and promote a sustainable energy supply, ensuring that additional costs of the energy transition are limited;

5. emphasises that it is crucial that agreements on unbundling of transmission networks and production and delivery are respected across the EU, including the agreements on the independent position of energy regulators and requirements on consumer protection. It is a priority to support and further develop the role of the EU's Agency for the Cooperation of Energy Regulators (ACER), particularly its capacity to scrutinise national regulatory decisions and settle disputes;
6. fully supports level playing field-measures to create more decentralised and competitive market models, as they create more opportunities for local energy producers and supporting industry, but stresses that guaranteeing a level playing field includes providing the necessary grid infrastructure to allow peripheral regions, including island regions, to benefit from these opportunities as well. The development of infrastructure, even to more isolated regions, and the necessity to work regionally on international connections, links to islands and carriage capacity are therefore crucial parts of the realisation of the internal energy market;
7. notes that inconsistencies in taxes and levies between Member States reduce the competitiveness of the electricity market, and that this can also be shown to have a negative impact on other parts of the economy. This has negative consequences both for consumers and for energy-intensive industries, which experience significant competitive advantages or disadvantages depending on their location. In order to level the playing field, it will be necessary to progressively phase out direct and/or hidden subsidies for fossil fuel and nuclear generation;

**B. *Central role for consumers***

8. stresses that energy policy should centre around the consumer, as stated by the CoR in its Opinion on the 3rd legislative package on European electricity and gas markets, CdR 21/2008 fin. The consumer should be the central focal point and ultimately – as an individual or operating in groups, cooperations or organisations - have direct access to the energy market, be it through a variety of energy sources from different producers or directly to the spot market;
9. is convinced that, to enable consumers to make the best choices in terms of sustainability, value for money and energy efficiency and to select the most suitable providers, education, information and transparency with regard to energy must be given priority and that information on the possibilities the internal energy market and new technologies offer for the reduction of energy bills, is made easily available to consumers. Moreover, consumers should be made aware of ways to control energy consumption, possibilities for energy saving and improve energy efficiency and small-scale production. The CoR therefore recommends the Commission and Member States to roll-out consumer-friendly information campaigns in which local and regional governments and other relevant regional civil society organisations should take active part;

10. believes that, next to the proposed information campaigns on energy providers and prices, implementation of smart real-time metering systems for energy production and consumption and distribution networks/grids with a sound technical basis is crucial for providing decision-making information to consumers, enabling them to become more aware of energy prices, energy consumption (patterns) and the relation between consumption and price of energy, therefore leading to a more well-considered and sustainable use of energy, creating the conditions for the use of smart electrical (household) appliances, and resulting in energy savings. The CoR recommends the Commission to keep-up its stimulation policy of smart meters as laid out in earlier Communications. This policy should facilitate the introduction of smart distribution networks, integrating the management of consumption and flexible storage, production and consumption capacities and communication between them, while taking into account accuracy, confidentiality, privacy and fraud aspects and working simultaneously on developing standards;
11. doubts whether the proposed EC measures are satisfactory to empower consumers and to combat energy poverty and demands special focus to be given to the protection of consumers. In this respect, attention is required for the asymmetrical position of energy users vis-à-vis huge companies, otherwise the market remains an unresponsive interface blocking feedback between users and policy makers/regulators. Best practices at local and regional level on important consumer-related issues such as access to information, possibilities of price comparison and insight in bills as well as on the specific position of vulnerable consumers, should be exchanged with help of the Council of European Energy Regulators (CEER);
12. calls for energy efficiency incentives to be more developed than today and for support to be given to both traditional and modern technological solutions and energy services promoting energy savings. Energy poverty should be addressed by applying reduced pricing mechanisms for electricity or discounts on each supplier's published prices for socially vulnerable or fragile groups (social domestic tariff). At the same time, at local and regional level, special care should be taken to provide opportunities for households from these groups to access dedicated energy renovation programmes. For the remaining consumers there should be a single tariff and tiered energy pricing should be avoided, since it can, as a measure, often inhibit the development of other positive measures, such as for instance the use of heat pumps as alternative heating systems. Lastly, at regional and local level, an information campaign is needed on ways to improve energy efficiency and on the objective and comparative advantages of their application. This can also be supported by specific programmes for energy efficiency;

**C. *Importance of small-scale generation***

13. underlines the importance of both Member States and local/regional governments facilitating local energy solutions (e.g. in the form of cooperations), in the form of small-scale production, smart grid development and demand-side participation as these initiatives form an increasingly important pillar to renew EU energy markets. The CoR advocates an integral

approach, not only to facilitate more aware consumption, but also to incentivise small-scale production, smart grid development and strong demand response in distribution networks;

14. acknowledges that increasing numbers of consumers will rather invest means in own production, than to be dependent on others ("prosumers", i.e., energy consumers who also produce energy for his/her own needs or those of his/her neighbours), a positive development from the point of view of consumer awareness and sustainability. Small-scale companies and initiatives (households, local communities, neighbourhoods, regional cooperations) will play an increasing role in local/regional energy supply causing positive effects on the local/regional economy and labour market. Small-scale energy producers should therefore have easy access to energy networks/smart grids. Sound rules should be developed, by means of which households and small producers are encouraged to invest in micro-production of energy, for the entrance of these new suppliers to the networks. The CoR calls upon the Commission to pay specific attention to the growing importance of small-scale generation of energy and the specific demands it poses and to stimulate the exchange of best practices at local and regional level, in order to facilitate this development;
15. stresses that consumer empowerment and the increasing importance of small-scale generation not only asks for a promotion of the roll-out of smart metering systems, but also requires an update of the EU's concept of smart grids. While the EC expects a "smoothly functioning and smart grid network" to contribute towards the competition in the internal energy market, there is no specific mentioning of the growing importance of small scale production and the potential role of energy consumers as producers and small scale storage facilitators. The CoR therefore believes that the EC's notion of smart-grids should be updated and available knowledge and innovations exchanged to allow for effective support of small-scale production;

**D. *Competitive wholesale markets and market transparency***

16. points out that wholesale energy markets provide the price signals which affect the choices of producers and consumers, as well as the investment decisions in production facilities and transmission infrastructure. These signals should reflect the real conditions of energy supply and demand. Greater transparency in wholesale energy markets reduces the risk that markets are manipulated and price signals distorted. The CoR therefore stresses that the application of the REMIT regulation is a key measure to address the shortcomings of the energy market within an EU-wide framework;
17. believes that, for the effective functioning of a European energy market, it is crucial to develop network codes, tackle remaining regulatory issues with respect to the European balancing market network code and to establish a co-ordination initiative to address emerging regulatory and technical issues. The CoR supports these measures as a way to create and strengthen a flexible and secure energy market in Europe and believes that the implementation of European network codes, while taking into account regional differences in

degree of development, should be continuously monitored by the European Commission, not only to ensure a swift and effective implementation, but also to ensure functionality of the codes and their effectiveness in the market;

18. agrees with the Commission on the potential of a harmonised system across Europe. During the development of the code, it has become obvious that a stronger link is necessary between regulations that were created in parallel on EU and Member State level. In this context, the CoR shares the opinion of ACER that the focus of network codes has to remain on the better interconnection between national energy networks;
19. is convinced of the potentials of gas, especially as balancing power and back-up capacity, but shares the concerns of the Commission with respect to the differences in availability of natural gas infrastructure between regions in Europe. A spread-out of (liquid) gas transport and storage infrastructure to all regions of Europe and the integration of gas and electricity grids would facilitate the realisation of an internal energy market. The CoR therefore agrees with the Commission and ACER that Regional Initiatives should help set up additional regional gas hubs and power exchanges, aiming for full market coupling in electricity across the EU. This requires strengthening the power and gas interconnections with the outermost and island regions. Pilot projects aimed at power-to-gas and gas-to-power concepts should be developed at local/regional level and their findings disseminated;

**E. *Renewable energy***

20. is convinced that pursuing the renewables objective will contribute to the completion of the internal electricity market but recognises that liberalisation based solely on price will not necessarily result in the decarbonisation of the EU's energy system. However, an integrated internal electricity market means less price volatility in specific regional markets, which allows for more efficient deployment and grid integration of renewables, and energy investment should ideally favour renewables. As there is, nonetheless, still a lack of consistency between decisions on renewable energy of individual Member States, the CoR, urges for a common European strategy to develop both market-based and regulatory mechanisms, as voiced by the CoR position in its Opinion on "Renewable Energy", CdR 2182/2012 fin;
21. proposes, in order to facilitate the integration of the growing share of wind and solar energy and to guarantee a stable balance of supply and demand, a clear regulatory framework that defines the role of the different actors and enables the search for market-based solutions leading to the right price signals on the energy market. On the demand side, clear price signals will lead to energy savings; on the supply side they'll give the necessary flexibility. This includes an effective emissions trading system ensuring appropriate incentives for investments in renewable energy and flexibility. The CoR, in order to ensure that the European Union Emissions Trading System provides sufficient incentives to invest in the

development of low-carbon technologies, calls for a structural solution to the pressing problem of oversupply of emission allowances;

22. regrets that, due to a lack of coordination at EU level and the existence of different, often incompatible national support schemes and mechanisms for the remuneration of generation capacities, “regulatory shopping” becomes a key factor behind power plant investment decisions in Europe. The CoR underlines that the development of renewable energy cannot be seen in isolation and must not prevent the functioning of the energy market. Public support schemes in Member States should be clearly targeted, predictable, adapted in scope to the objectives pursued, proportionate and include phase-out provisions to reflect changes in the commercial viability of the type of production supported. Any support measure has to be implemented in compliance with the internal market and relevant EU state aid rules. Authorities, especially in border regions, should take full account of how the electricity system in neighbouring regions/countries is affected by foreseen decisions before implementing new stimulation measures. The CoR supports the Commission’s initiative to issue guidance on best practices in support mechanisms for renewable energy sources;
23. endorses, as presently local and national energy taxation varies widely across the EU, the Commission's initiatives to promote uniform, smarter energy taxation in Europe. A more harmonised tax framework, so as to organise the tax burden on renewable and fossil energies on an objective basis, factoring in the energy content and CO<sub>2</sub> emissions for each product, would add to the realisation of the 20/20/20 goals and help to cut CO<sub>2</sub> emissions and to achieve the goals of the Energy Roadmap 2050; in this connection, also notes the need to agree an equitable methodology of allocating carbon emissions arising from the generation and consumption of energy across regional and national boundaries in a liberalised pan-European energy transmission and distribution system;
24. stresses, in addition to the use of renewable energy, the importance of energy efficiency and saving. Urban and spatial planning at local/regional level as well as energy efficiency measures and stimulating energy efficient homes and buildings by local/regional authorities will contribute to saving energy and stimulate local energy solutions, including co-generation. The CoR recommends on-going attention for this policy and suggests best practices at local and regional level to be used to strengthen European and national policies in this respect;

**F. *Capacity mechanisms, demand response and security of energy supply***

25. stresses that prematurely introduced and badly designed capacity mechanisms may result in fragmentation of the internal market and hinder investments. The CoR questions the capacity mechanisms of a range of Member States, which are designed to support electricity producers for keeping available their generation capacity to ensure there is sufficient capacity also when variable sources of electricity, such as wind and solar power, are not producing. Conversely, surpluses of energy (e.g. from wind power), should not be channelled through neighbouring countries' grids without first coordinating such measures, as this could distort the energy



market in those countries (loop flows). In other cases, a surplus in one area may in fact help resolve a shortage in another area. The CoR endorses the Commission's policy to look for cross-border solutions. Before any regional or national measures are set, proper analyses should be conducted to confirm there is a capacity problem and there are no alternative solutions, and to verify that the measures proposed take into account cross-border effects. A coordinated approach to security of supply is essential;

26. believes that the future European energy market should no longer be determined solely by supply but also by control of demand, especially during peaks in consumption. Actors must pursue a decrease in industrial and household consumption, and create the right conditions for capitalising on the new functionalities of smart grids and smart meters. The CoR therefore favours the development of coordinated capacity mechanisms at European level, which will be able to smooth out peaks in energy consumption, to secure the functioning of European electricity systems (particularly during consumption peaks) and spur on a reduction in electricity consumption;
27. is convinced that, while constructing the overall European infrastructure vision, the development of infrastructure for distribution system operators (DSOs) should be considered to the same extent as that for transmission system operators (TSOs). The development of distribution infrastructure is essential to achieve the 2020 targets, and is urgently necessary, to connect renewables to smart networks and to integrate decentralised energy products into the system. This endeavour cannot succeed when infrastructure planning stops at transmission level;

**G. *Infrastructural networks***

28. acknowledges the fact that, as the energy market is increasingly international, interconnections, back-up and storage facilities and infrastructure are essential in realising the internal energy market. The CoR therefore supports the agreement on the European Infrastructure Package that was reached on 27 November 2012 but urges that, next to large-scale (international) investments, also investments in regional or even local networks should be made, including interconnections with isolated or semi-isolated island systems, as energy generation increasingly takes place at local/regional level;
29. calls on authorities to address the issue of incentives for the right market investments in generation, transmission, storage and supply/demand balancing facilities and recommends that, next to existing programmes (EEPR, the Connecting Europe Facility, EU Cohesion Policy, TEN-T programme, Horizon 2020), new means of financing for the realisation of infrastructure should be sought for. Public-private partnerships, the mobilisation of private funds, innovative financing agreements or fiscal measures could all be potential ways of acquiring extra funds. In order to let private investments flow in, there is a need for more certainty on which investments reap benefits on the long-term. Therefore the CoR stresses the importance of a (long-term) European energy investment agenda. The simplified access of

local/regional authorities to funding from the European Investment Bank (EIB) for sustainable energy projects should be continued. Additionally, regulators should be able to incorporate improvements of infrastructure and the realisation of back-up and storage facilities in energy tariffs;

30. suggests that streamlining authorisation procedures within the EU and an improved cost allocation for cross-border projects will contribute to the development of infrastructure networks and unlocking investments. Moreover, this could lead to a boost of supply security in the EU and the integration of renewable energy by improving the transportation possibilities of energy. Local and regional authorities should play an important role in this respect by simplifying planning procedures and integrating energy infrastructure in their local and regional planning schemes;
31. the CoR considers that expenditure on the energy network and its expansion, which is carried out in the interests of both the environment and the consumer throughout the EU, should be shared on the basis of solidarity and not supported exclusively by the country where the network is being expanded. The CoR therefore supports the further development and implementation of robust "cost allocation" mechanisms in the Regulation for the Energy Infrastructure Package, and the activities currently being carried out by the supervisory bodies ACER and ENTSOG with a view to further shaping this policy;

#### **H. *Smart grids***

32. strongly supports the urgent need for the modernisation of existing grids and developing smart grids, and endorses cooperation in the development of smart grids at European, national and regional level and the development of European standards for smart grids. National and regional action plans for the modernisation of networks are a necessary addition to the existing plans. Research and development programmes (Framework Programme, Intelligent Energy Europe) should assist industry in this respect. Especially, pilot projects at local and/or regional level could demonstrate the possibilities for smart grids and help to roll-out grids throughout Europe. The CoR therefore calls upon the Commission to collaborate with local and regional authorities in producing action plans for the deployment of smart grids;
33. stresses that, to realise this conversion of the network into smart grids, funds are needed in addition to the investments for the creation of new infrastructure. Studies should be undertaken into whether regulators should make it possible for operators to incorporate this financial obligation in their tariff structure, which is currently not allowed. Furthermore, the CoR calls for methodologies for benchmarking of tariffs and of transmission and supply network-access costs, established by the regulators, to incorporate not only quantitative aspects (costs) but also qualitative aspects (e.g. network quality reliability criteria) so as to maintain the current level of network quality;

34. stipulates that it is absolutely crucial for a quick modernisation and smartening of grids that the regulatory frame-work encourages the necessary investments through a fair return, and provides clearness in roles and responsibilities without delay. As network companies need a stable, predictable, supportive and long-term regulatory framework that will incentivise and facilitate the innovations that are needed, a long-term vision is required;
35. Emphasises that transparency and the participation of citizens and communities in grid planning, development and implementation are critical conditions for public acceptance. The process of grid planning has to be re-designed to make it fit for purpose in a new era of energy efficiency, renewables and demand management and to ensure maximum flexibility and resilience within the system. Agrees that the grid planning process has to be inclusive, transparent and democratic.

Brussels, 4 July 2013

The President  
of the Committee of the Regions

Ramón Luis Valcárcel Siso

The Secretary-General  
of the Committee of the Regions

Gerhard Stahl

## II. PROCEDURE

<b>Title</b>	Making the internal energy market work
<b>Reference(s)</b>	COM(2012) 663 final
<b>Legal basis</b>	Optional referral
<b>Procedural basis</b>	
<b>Date of Commission letter</b>	16 November 2012
<b>Date of Parliament letter</b>	22 November 2012
<b>Date of Bureau/President's decision</b>	16 November 2012
<b>Commission responsible</b>	Commission for the Environment, Climate Change and Energy (ENVE)
<b>Date adopted by commission</b>	24 April 2013
<b>Result of the vote in commission</b>	Adopted unanimously
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<b>Previous Committee opinions</b>	
<b>Date of subsidiarity monitoring consultation</b>	Not applicable