

Brussels, 14 May 2013

Dear Heads of State and Government,

Ensuring adequate investment is of paramount importance if Europe is to successfully achieve the transition to a low-carbon economy. However, there is factual evidence that such investments are currently not taking place.

To change this reality, it is crucial that European policymakers ensure policy coherence and stability. This means policies which apply EU-wide instead of different regimes in the 27 member states. It also means policies that are coherent over time, allowing a smooth transition from today through 2030 and beyond. Crucially, it means policies which are coherent with one another and stable over time. Coherence will be the only way to make the European electricity industry investable again and to fulfill our ambitions of decarbonisation by 2050.

EURELECTRIC, the association representing the 3,500 companies of the EU electricity industry employing some 800,000 employees, is working on the issues that are on your agenda for the Council meeting of 22 May. We would therefore ask you to consider our views on the following:

- 2030 framework – coherence and clarity above all

EU climate and energy policies today are a source of confusion, not clarity. Today's policy framework is half European, yet still half national; half market-based, but also half command-and-control; and seems to be only half committed to the ETS. For the EU power sector to continue delivering reliable, affordable and sustainable electricity to the European economy, EURELECTRIC looks to the EU institutions to *urgently agree on a coherent top-down package of proposals which establish an ambitious, firm, long-term, economy-wide greenhouse gas reduction target for 2030 up to 2050, in line with the European Council goal*;

- Investment – regulatory risk is on the rise

Too many policy instruments usually result in market distortions, conflicting incentives, unforeseen consequences and far less efficient solutions. This is currently the case in the energy sector. A EURELECTRIC survey from last December has shown that 44 out of 45 energy leaders do not believe that the unprecedented investment volumes regarded as necessary by the IEA (€ 1 trillion by 2020) would occur.

*There is an absolute need to move away from this regulatory disorder - but also to avoid windfall taxes and retroactive changes - to instead come up with a reliable and long-term energy policy that fosters investments.*

- Market integration – can 2014 still be reached?

Integrating electricity markets by 2014 is an essential goal of the European Commission (EC) energy policies but also represents the most cost effective way of achieving the decarbonisation of our sector. In this respect, EURELECTRIC is strongly concerned about the delay in implementing the day-ahead and intraday projects in the North-West European region, which puts at risk the 2014 objective. *Strong political will and guidance from the Commission and the Council, seamless cooperation between TSOs and PXs, as well as close involvement of market stakeholders remain crucial* if we still want to be on time for achieving the 2014 objective.

Furthermore, integrating electricity markets and reinforcing the grid infrastructure will not be sufficient to adapt to the RES paradigm shift; the EC must, thus, act decisively to encourage a more cost-efficient development of RES that it is compatible with functioning markets.

- ETS – urgent reforms needed to maintain credibility

EURELECTRIC is profoundly concerned by the on-going and deepening crisis in the ETS. We consider the ETS the best policy to meet EU carbon reduction goals because it is technology neutral, because markets elect for cost-effective investment choices, and crucially because it is fully compatible with the EU internal energy market. We see a serious risk that the current crisis will so weaken the ETS as to lock the European economy into a non-ETS approach to decarbonisation that will not only distort, but also fragment, the internal energy market, undoing 20 years of work on harmonisation and resulting in higher costs for all of energy customers – residential, industrial, big and small businesses.

*EURELECTRIC therefore supports a temporary ETS back-loading and an early revision of the ETS annual linear reduction factor in the region of 2.3% before 2020, in line with a firm, economy-wide 2030 CO2 reduction target, as the best means of achieving EU climate objectives.*

- Innovation – accelerate power sector innovation to unlock up to €70bn in 2030

Technological breakthroughs and business model innovation in power generation and downstream energy services could unlock up to €70bn in 2030, or €135 per EU citizen. It could also reduce power generation cost by 11%. This is the main finding of our Innovation Action Plan, which we are pleased to send you herewith enclosed.

*It is therefore critical to really boost innovation in the power sector. This requires policymakers to provide an EU policy framework that enables; a broad view for innovation instead of support for individual technologies in isolation; public and private sectors working hand in hand to stimulate a market for innovation; bridging the gap between basic research and development (R&D) and demonstration/deployment; retail markets further deregulated; and a rewarding framework for innovative network solutions improving coordination between national and EU innovation policies.*

Considering this, **we urge you to:**

- **Firmly resist the move towards a renationalisation of energy policy.** Such a move could only increase incoherence and thus raise the overall cost of energy for European customers;
- **Ensure policy coherence:** conflicting EU policy instruments put investment seriously at risk and are counterproductive at a time when our sector needs sizeable investment into low-carbon and carbon-free technologies. An urgent look at the interaction between the ETS, renewables and efficiency policy instruments is needed as it is clear that the policies for energy efficiency and renewables contribute – together with a general over-allocation – to undermine the ETS;
- **Intervene to rescue the ETS:** we call on Member States to immediately agree the temporary back-loading in order to signal to the carbon market – and also to international observers – that the EU remains committed to a long-term strategy of driving carbon reduction through a strong carbon market. In addition, we also invite you to urge the European Commission to bring forward proposals for effective ETS structural measures before the end of this year.

Wishing you all success in your meeting,

Very best regards,

  
Fulvio CONTI  
President of EURELECTRIC