



Opening Ceremony CIGRE 42^d Session

24 August 2008

- Opening Address -

Ladies and gentlemen,

Permettez-moi, pour commencer, de vous adresser quelques mots en français. Je tiens tout d'abord à remercier M. Fillion, Président de CIGRE, et André Merlin de leur invitation à ouvrir ce congrès international. Le fait qu'il se déroule à Paris est de surcroît de très bon augure. Il a lieu en effet sous présidence française de l'Union européenne. C'est important de le souligner car la France a identifié la sécurité énergétique comme une des ses priorités majeures. En m'invitant, vous m'offrez une opportunité unique d'expliquer le pourquoi et comment de la politique européenne de l'énergie; et de rappeler – s'il en était besoin - l'importance que revêtent les réseaux électriques dans ce cadre.

In March 2007, the EU became the first region in the world to agree ambitious energy and climate policy targets. The 27 Heads of State and Government committed themselves to binding targets to reduce greenhouse gas emissions by 20% by 2020, rising to 30% with an international agreement, and to increase the share of renewable energy to 20% of energy demand over the same period. In January 2008 the European Commission put forth an integrated proposal for Energy and Climate Action.

The legislative package concerning our internal energy market was also proposed. The measures were in three main areas: unbundling, effective regulation and network cooperation. This proposal had a very simple objective – the creation of a European-wide, single energy market characterised by effective cross-border competition. The Internal Energy Market must benefit each and every EU citizen, through competitive prices, improved security of supply, better standards of service and better levels of consumer protection.

The EU is therefore now implementing an intensive programme of action to change the course for energy in Europe.

Let me quickly recall what we have achieved:

- The new package of legal measures, to open up the European gas and electricity market was endorsed by the Member States. On all the essential elements of the package there is now a broad agreement.
- New rules to expand and strengthen the EU Emissions Trading System are being discussed in the Council and in the Parliament. Political agreement on the overall target and on the main elements of the post-Kyoto Emissions Trading System exists; the details still need to be agreed.
- The directive to enforce the 20% renewables target and to agree sustainability standards for biofuels in all Member States is progressing well.

These proposals represent an unprecedented change in the legal framework for Europe's energy markets, involving almost half a billion people and setting a precedent for concrete action elsewhere. I am confident that the proposals can all be adopted with the current Parliament. We have hardly any choice; year 2020 is very close given the level of ambition of our targets. It is not possible to prolong the period which includes an uncertainty on the legal framework to be applied for the EU energy markets.

Internal market and green package

These proposals need to be seen as a package. The Internal Energy Market is not just about competitive prices for our citizens. It is also a vital tool if we are to meet our environmental aims. Without a competitive and European-wide electricity market the Emissions Trading Mechanism simply will not work properly. The present lack of effective competition goes a long way to explain why European electricity companies have increased their prices to reflect the carbon price, whilst at the same time accepting free emissions permits. This has resulted in windfall profits to these companies and reduced the effectiveness of the trading scheme.

Equally, it will be important to bring the EU's use of renewable energy to 20% of its energy mix by 2020. Indeed, to implement hugely ambitious binding national targets without an effective market would create enormous and very expensive distortions and would be a major threat to their eventual achievements.

In electricity markets, with the challenge of climate change and energy security, it is vital to have coherent policies. If the policies are not coherent, it creates uncertainty and investments are not made. And finally it is the investments that count: the EU will need investment in electricity generation in the order of €900 billion during the next 25 years, and €220 billion on gas infrastructure.

The energy package and the green package together is a major achievement to ensure coherence of our climate and energy policies. The package will create the stability needed in the market to encourage the necessary investments.

Co-operation of Transmission system operators

The internal market package contains also other important elements which are fundamental for promoting investments. Transmission network companies will be efficiently unbundled from the generation and supply businesses. This will create a whole new environment to promote investments in network infrastructure at the European level.

One key element to increase investments is the improved coordination between network companies through the creation of the European Network of Transmission Systems Operators. This new entity will have multiple tasks, among them the essential one will be advancing co-operation in network security, both in making rules and in operation of the network.

Another key task for the European Network of Transmission Systems Operators will be network planning. Every second year a 10-year investment plan will be made, not just a compilation of national plans but a true European network development plan which will identify network investments needed to make the European market work properly and allow for full integration of renewable energy.

There are strong reasons for supporting the idea of a “regional system operator”. I think that now when we are reaching the goal of individual Transmission companies becoming truly independent, this idea merits pursuing. A real effort is needed to move quickly towards regional and then wider European markets. This development could now follow voluntarily. New companies would be established with responsibility regarding the operation of the transmission grid of 4 or 5 Member States, or even a wider area. This Regional System Operator would give instructions to national network operators on issues such as dispatching, congestion management, balancing and even new investments. A deeper integration of companies is not excluded either.

I am well aware, however, that agreeing an ambitious network plan on paper does not mean that it will become reality. Transmission companies face many hurdles when trying to get permission, even for lines that are clearly objectively necessary. The Commission has made important progress through the appointment of European co-ordinators for essential projects, and will continue to do so where necessary.

Furthermore, later this year, the European Commission will publish a Green Paper on Trans-European networks, determining what now needs to be done at Community level. The challenges that our electricity must face over the coming years are extraordinary. We need to ensure today that the rules catalysing new investment and balancing different energy, security and environmental intents are both proportionate and efficient.

Agency and national regulators

I would also like to discuss the progress in the EU towards effective regulation.

If the Internal Energy Market is to work – so that electricity and gas suppliers can really sell across borders and citizens and businesses can buy energy in other Member States – we need to get rid of existing trade barriers created by different technical norms and mechanisms.

To dismantle these barriers a decision-making power at Community level on these cross-border issues needs to exist. Such a mechanism would be now created through the establishment of the proposed Agency for Co-operation of Energy regulators. The Member States and the Parliament are pushing the Agency's powers building on the Commission's proposal. Only a strong Agency would be able to face the challenges of regulating the European energy market.

The Agency is sometimes referred to as “a European Energy Regulator”. This is misleading. National regulators will continue to carry out their traditional roles: setting tariffs, grid codes, licensing requirements, customer protection rules and national security standards. The Agency will address on cross-border regulatory issues, to make trade work through decisions at Community level. National regulators will have a central role in the Agency's regulatory board and the Agency's daily work will largely rely on their expertise.

Today, the powers and independence of national energy regulators differ considerably across the EU. In some countries they have neither the powers nor the resources and they are even subject sometimes to political interference. This situation is also a weak basis for co-operation between national regulators. The third liberalisation package addresses this problem along the lines of the Energy Council which has now agreed to give appropriate powers to regulators.

The regulators and the Agency will have a central role regarding network investments. Independent Transmission System Operators are keen to invest, this is their core business. Network investments will be more and more expensive in the future, public resistance against building transmission lines can hardly be expected to decrease. It is finally up to the national regulator to decide which investments are allowed to take place.

A big challenge is to extrapolate this national regulator's role to cross border investments. There is a need for a European mechanism to ensure that networks with a wide European interest will be built. The Commission intends to address this question in the context of updating the Trans European Energy Network policies. In any case, the Agency will have an important role in finding a proper regulatory treatment for cross-border investments.

Need for regulation

In economics, there is a constant discussion to what extent economic activities should be regulated and to what extent they should be left to market forces. The famous professor from MIT, Alfred E. Kahn said, "All competition is imperfect; the preferred remedy is to try to diminish the imperfections. Even when highly imperfect, it can often be a valuable supplement to regulation. But to what extent it is intolerably imperfect, the only acceptable alternative is regulation".

In Europe, we keep on searching the right balance of regulation and competition also in the energy markets. Electricity and gas networks are, together with water supply, practically unique in that they are truly "essential facilities". They are also in most cases incontestably natural monopolies, it makes no sense to build competing networks to cover the same geographical areas. For network companies the regulator is the unavoidable partner, the well-being of a network company and its customers is very dependent on the regulatory decisions.

Regulation does not stop with network activities. Regulators have an essential role, directly or indirectly, together with other national authorities, to shape also the competitive part of the market. Examples of these powers are the rules of allocating capacity for cross-border interconnections and the rules of balancing markets.

The role of regulation is also essential in the Emissions trading and renewable packages.

In this regard, Emissions trading is probably the simplest. Once the rules have been agreed up-front, it is very much for the competitive actors themselves and the market to deliver the result. The product itself is very simple and can be readily traded in exchanges without bottlenecks created by any underlying network infrastructure.

Renewables are more challenging. It is clear for everybody that our target to achieve 20% renewables by 2020 is not possible without major public subsidies to reflect the external costs and benefits, as well as the existence of rules conducive to integrating renewables and adding to competition. Regarding electricity, intervention is needed in terms of financial support, in connecting the generators to the grid and in accommodating produced electricity in the market.

Here again, there is a need to strike a delicate balance between what shall be regulated and what should be left to the market. Currently these questions have been dealt with by Member States making national decisions on the level of regulation and on the practical measures. This has been very efficient in some cases. However, we are facing now a challenge that is an order of magnitude more demanding than the previous ones. To face this challenge cost effectively, we need to enhance the means to trade and compete in generating renewable energy, to plan effectively and improve the regulated framework.

I take as an example the connection of off-shore wind power to the European transmission system. For an off-shore site the grid connection is an important part of the investment already to connect to the nearest shore. The development of off-shore wind will, however, require a much more global vision on the whole infrastructure. Off-shore sites are often close to several Member States. There is a high potential for much more efficient investments using regional concepts compared to piecemeal solutions where each

Member State makes its own network plans and connections. This is one of the things we expect to look at in the Communication on Offshore Wind Energy that we are preparing as part of the Strategic Energy Review this autumn, and it will also be an issue in the context of the green paper on the trans-European energy networks.

We now start to have the elements for reaching these European benefits. To summarize, network planning is a key task for the new European Network of Transmission System Operators. The Agency of Co-operation of Energy Regulators will monitor these planning activities and will pave the way to national regulators to approve the investments individually.

In addition to such plans, we are making efforts to ensure that national renewable energy support measures progressively facilitate the development of the single market and help reaching our targets in a cost effective manner. The provision of the effective possibility to trade where Member States need this within a Directive on renewable energy will work in tandem with ETS to provide a framework effectively facilitating cooperation and integration between national support schemes and reducing compliance costs for the consumer.

We need to guarantee that all renewable electricity can be harnessed wherever available. All administrative and regulatory barriers to the full integration of renewable electricity have to be removed in order to reach our energy policy goals.

Ladies and gentlemen,

I hope that you will understand why I have focussed on the reforms taking place in Europe. I believe that they represent at least partly a blueprint for other electrical systems that will need to adapt to the challenges of climate change and energy security by 2020. However, important that these changes are, they are but the "tip of the ice-berg" of the challenges that electricity systems will need to face over the next fifty years.

If we are to address climate change – and to do so is an obligation not a choice - the EU has already accepted that it will have to reduce greenhouse gas emissions by 50% by 2050. Many believe that an 80% reduction is more likely. To achieve this – as recognised recently by the President of Eurelectric – the EU's electricity system will need to be more-or-less completely carbon neutral by 2050. At the end of the day it is this challenge that the EU is laying the foundations for today.

And there is a further challenge that the electricity industry will have to face by 2050; the continued increased demand for oil in the developing world and the fact that many major oil fields are expected to decline in output. In the medium-term, therefore, the demand-supply balance for oil can be expected to be much tighter than it is today. Both the EU and US are beginning to place increasing importance on the rapid development of electric cars.

So, with the move towards a carbon-free electrical system, massive increases in renewable production, and a greatly increased role for electricity-based transport, the real challenge will be the development of a grid that looks – and functions – very differently than today. This is the real and most difficult challenge facing us all – getting the incentives right, and quickly enough, to catalyse this change. This is why I have decided to set up a group of experts to establish a "European Road Map" towards a carbon-free electricity system in Europe by 2050, plotting the choices and the actions and investments necessary to achieve this objective. I count on CIGRE to play an important role in this process.

Ladies and gentlemen

Perhaps the two greatest challenges facing our generation are climate change and global poverty.

More than 1.6 billion people – one third of the world's population – live without access to electricity. According to the World Bank, 67% live in rural areas. Usually, this low-income population uses environmentally damaging energy sources, like charcoal or firewood.

Energy is a major tool for eradicating poverty. The provision of clean electricity to low-income households should mean greater productivity of agriculture and the development of small enterprises; it will give more chances to education.

This is one of the objectives of the Millennium Development Goals, and of the Africa-EU Partnership agreed in December 2007. Infrastructures are covered in the form of an EU-Africa infrastructure Partnership with a view to the promotion of regional energy networks.

I should also mention that, for the ACP countries, the EU has established an Energy Facility Programme to fund energy related projects. 75 contracts have been signed on actions like renewable energy, transmission lines and rural electrification, biomass, capacity buildings, and so on. Mobilising additional resources in this sector is a priority. The growth of

renewable electricity offers huge opportunities for bringing clean reliable energy to some of the world's poorest citizens. The role the EU can play in this respect is important, through the intelligent use of development funds and through collaboration by European grid and electricity generators and those in developing countries can provide great progress. This is something that must be a priority for us all.

Mr. President, Ladies and gentlemen,

It is time for me to conclude.

Since the adoption of the new energy Policy for Europe in March 2007, networks have taken on a new importance as the means for transporting cleaner, more sustainable and more competitive energy.

Now the EU needs to develop a more strategic vision for energy network development. This will be the subject of a new Commission Green Paper later this year. We have to tackle the barriers to a truly European electricity grid. We have to bring the benefits of a more efficient market to all customers. We have to envisage the integration of greater energy efficiency and decentralised energy/electricity production into the wider picture. And we need to ensure that the EU is able to stimulate and steer energy infrastructure investments into projects which will speed up the progress towards a low carbon, more efficient energy economy.

This will require full collaboration with the electricity industry. I call on CIGRE to help us to make it happen.

Thank you for your attention.