



Informal meeting of the Energy Ministers

18 - 19 April 2018, Sofia

Discussion Session I

spEEdy REsULTs for Europe's decarbonization

Background

Energy production and consumption account for about two-thirds of global greenhouse gas (GHG) emissions. The International Energy Agency and the International Renewable Energy Agency have estimated that – at a global level - energy-related CO₂ emissions need to peak before 2020 and fall by more than 70% from today's levels by 2050. Renewables and energy efficiency are expected to contribute the vast majority of emission reduction needs (90%), with some 10% achieved by fossil fuel switching and CCS.

An early action is therefore critical for feasibly maintaining the option of limiting the global temperature rise to 1.5°C, while reducing the risk of stranded assets. Delaying decarbonisation of the energy sector would cause the investment costs to rise.

This context is particularly relevant for the European Union, because 80% of its greenhouse gas emissions come from the energy sector. Therefore, the scale and speed of renewable energy and energy efficiency deployment in the period from 2020 to 2030 will be critical for its own efforts to reduce greenhouse gas emissions. The EU will be a pivotal player to showcase to and enable renewable energy and energy efficiency deployment in other countries around the world.

The European Council, at its recent meeting on 22 March, acknowledged the need to direct the EU efforts towards the commitments under the Paris Agreement and asked the Commission to present by the first quarter of 2019 a proposal for a Strategy for long-term EU greenhouse gas emissions reduction in accordance with the Paris Agreement, taking into account the national plans.

The key role of Clean Energy for all Europeans package: putting in place the most advanced regulatory framework in the world for renewables and energy efficiency

The Clean Energy Package has acknowledged the crucial role Renewables and Energy efficiency have for the decarbonisation of Europe's energy system while at the same time aimed at reaping the key benefits for the society as a whole of increased security of supply, positive impact on economic growth and jobs and, as technology costs go down, reduced energy prices for Europe's citizens and industry. It also brings benefits in terms of reducing energy poverty: the renovation of our building stock represents a key



contribution in this context. This is why the Clean Energy Package, as proposed by the Commission, has taken a conscious step to put energy efficiency forward and to make the EU global leader on renewable energy by proposing an ambitious set of measures for both areas, underpinned by headline targets at EU level.

The European Commission proposed in November 2016 an EU level renewable target of at least 27 % on final energy consumption combined with a binding energy efficiency target of 30 %. The Council, in its respective General Approaches, has not modified the Commission's proposals except for not specifying the nature of the energy efficiency target, while the European Parliament has agreed on a 35 % renewables target and an energy efficiency binding target of minimum 35 %.

In order to pave the way for informed discussions between the co-legislators and consider the very substantial reductions in some renewable technology costs such as on- and off-shore wind or solar PV,¹ the Commission has updated its economic modelling underpinning its proposal.² The first conclusion of this work is that lower costs enable the EU to reach a 30% RE target at a similar cost to the one anticipated for a 27% target a few years ago. Beyond 30% RE share, the costs moderately increase, but with clear net benefits in terms of reducing GHG emissions and fossil fuels imports, increasing security of supply and having a positive impact on GDP growth and new jobs.

At the same time, the International Renewable Energy Agency (IRENA) has released in February its report on Renewable Energy prospects for the European Union (the REmap study). The main conclusion is that European Union could double its share of Renewable Energy (RES) by 2030 cost-effectively and reach a 34% share. This analysis is based on the significant cost reductions of the aforementioned renewable energy technologies but also considering the accelerated technological development in end-use sectors; e.g. electric vehicles.

Outstanding issues

Renewables and Energy Efficiency targets are mutually reinforcing and should be considered in a holistic way, recognizing both the potential and the objective circumstances related to the level of ambition. There are various factors in both areas that are affecting Member States' policy decisions. For example, in the area of renewables the technology costs and energy infrastructure development are crucially important, while in the area of energy efficiency such factors are the cost-effectiveness, economic growth and the impact on the Emission Trading System (ETS).

Looking ahead at the ongoing co-decision discussions with the European Parliament, there is a need for Member States to explore a level of the EU targets which is consistent

¹ The levelised cost of electricity (LCOE) for offshore wind in medium potential areas in 2020 is now €125/MWh, 5% lower than estimated in the 2016 Reference Scenario. The same technology in 2030 has an estimated cost of €108/MWh, 19% lower than previously estimated. For solar PV, the cost reductions are 8 % for 2020 and 16 % for 2030.

² Non paper on complementary economic modelling undertaken by DG ENER regarding different energy policy scenarios including updated renewable energy technology costs in the context of Council and Parliament discussions of the recast of the renewable energy directive and the revision of the energy efficiency directive, 2 March 2018

with the latest available information and evidence about recent technology costs developments, best underpins the EU policy goal of being global leader in renewable energy and energy efficiency, but also reflects the economic development, the national specifics of Member States and the coherence with the other objectives of the Energy Union.

In addition to the main question on overall level of both headlines targets, there are a number of closely linked relevant questions in both discussions. The contribution of the end use sectors to the headline target and whether and how to use a formula to determine national contributions, as proposed by the European Parliament, are key elements of the renewables discussion. The questions on the extend of flexibility for Member States in the fulfillment of their energy savings obligations and whether transport should be added to the baseline for energy savings under Article 7, as proposed by the European Parliament, are significant for the energy efficiency one.

Aim of the discussion

The Bulgarian Presidency would like to carry out policy debate and receive political guidance for the upcoming negotiations with the Parliament. Such guidance is necessary since the final compromise on the renewables and energy efficiency would require the Council to make a step further from its position and to show flexibility to the proposals of the Parliament which could indeed contribute to the overall goals of the Energy Union.

Questions

In view of the above, the Bulgarian Presidency would like to put forward for discussion and policy debate the following questions:

- 1. How can renewable energy and energy efficiency targets for 2030 consider the climate imperatives and international commitments as well as the EU policy goals of world leadership in both areas in a balanced, coherent and cost efficient manner? In that regard, which target levels for both and what nature of the target for energy efficiency are more adequate?**
- 2. How can we ensure that end-use sectors (e.g. heating and cooling, transport) contribute to the necessary scale and speed of renewable energy deployment and energy efficiency improvement?**

Discussion Session II

Integrative Governance for a Sustainable Energy Union

Background

The proposal for a Regulation on the Governance for the Energy Union was adopted by the Commission in November 2016 as part of the Clean Energy for all Europeans package (CEP) of eight legislative acts and accompanying measures. The proposed Governance Regulation is the first piece of horizontal legislation to cover all dimensions of the Energy Union, from the internal energy market to energy security (including infrastructure and interconnections), competitiveness and decarbonisation, addressing also climate-related aspects. It is central to the success of the CEP: establishing the architecture for energy and climate policies to achieve Energy Union objectives and EU commitments to the Paris Climate Agreement; and ensuring that the 2030 energy and climate targets and framework are reached at EU level.

The Governance Regulation should reduce administrative burden and deliver overall policy coherence and monitor and address the EU's collective progress towards common policy objectives while allowing sufficient flexibility for each Member State to adapt to local conditions and needs. The energy and climate plans will provide greater investor predictability as they should provide comparable long-term and comprehensive overview of all Member State intentions across the five Energy Union dimensions of: security of supply, a fully functioning internal energy market, decarbonisation and better integration of renewable energy, energy efficiency, and research, innovation and competitiveness.

The Energy Council agreed to a General Approach on the Governance proposal on 18 December 2017; the European Parliament endorsed its position on 17 January 2018. While there is substantial common ground between the co-legislators on the main elements of the proposal, notably on the overall structure of planning and reporting by Member States across the five dimensions and monitoring by the European Commission to ensure collective achievement of the Energy Union objectives, we will have to make significant progress rapidly on outstanding issues in order to meet our ambitious goal of concluding by the end of the Bulgarian Presidency.

Main energy related outstanding issues

The first trilogue negotiations were held on 21 February 2018, where key political elements were identified. Several subsequent informal technical trilogue meetings allowed for clarifications and identification of areas for technical convergence between the co-legislators, with a view to facilitating the second trilogue on 26 April.

The first of the European Council Conclusions of 22 March 2018 called for increased efforts to deliver on the Energy Union before the end of the current legislative cycle,³ thus it is essential to identify areas where constructive compromises can be made between Council and the European Parliament.

Key elements for Energy Ministers to consider with a view to reaching political agreement include:

❖ **The scope and timeline of the integrated national energy and climate plans and their integrated reporting**

The integrated national energy and climate plans provide the long-term vision of Member States' national policy objectives and targets (including supporting policies and measures).

Compromises will need to be found regarding (i) the consistent coverage of all five dimensions of the Energy Union in the plans and the progress reports, and the additional reporting requirements introduced by the Parliament, including on energy efficiency first and energy poverty, and (ii) the timelines of the draft and final plans. The March 2018 European Council Conclusions invited the Commission to present a proposal for long-term EU greenhouse gas emissions reductions taking into account national plans.

❖ **The iterative process including regional cooperation**

The proposed Governance Regulation foresaw an iterative process to ensure that Energy Union objectives are met, giving Member States the prerogative to decide on their contributions to the Energy Union objectives, followed by an assessment by the Commission of the ambition level in the national plans and, where appropriate, Commission recommendations addressing, inter alia, possible shortcomings. There appears to be a common understanding that this iterative process should serve the purpose of closing any ambition gap before the submission of final plans.

Differences to overcome with the EP include the timing of deadlines for recommendations, the contributions from national consultations, and regional cooperation, as well as the means to ensure timely and effective closure of any ambition gap.

❖ **The ambition gap filling mechanism for renewable energy contributions and energy efficiency**

Specific renewable energy and energy efficiency gap filling mechanisms are at the core of the Governance proposal as they establish the means to ensure that the 2030 targets collectively set by the EU are met through the collective efforts of all Member States.

³ The European Council calls for increased efforts to deliver, before the end of the current legislative cycle, on the Single Market strategy, the Digital Single Market strategy, the Capital Markets Union Action Plan and the Energy Union, including through the swift examination of recent Commission proposals.

Differences in the approaches between Council and EP will need to be bridged as regards the "ambition gap", including the methodology for defining national contributions for renewables (objective criteria, possible use of a formula, or an implementing act).

Aim of the discussion

The Bulgarian Presidency would like to carry out policy debate and receive political guidance for the upcoming negotiations with the Parliament. Such guidance is necessary since the final compromise on the Governance would require the Council to make a step further from the General approach and to show flexibility to the proposals of the Parliament which could indeed contribute to the overall goals of the Energy Union.

Questions

In view of the above, the Bulgarian Presidency would like to put forward for discussion and policy debate the following questions:

- 1. What objective, transparent and predictable mechanism should we choose in order to effectively close any ambition gap in the area of renewable energy?**
- 2. To what extent are Member States ready to accept an indicative non-linear trajectory for the share of renewables in the gross final energy consumption with reference points as follows: By 2022 - at least 20%; by 2025 – at least 45 %; by 2027 – at least 70 %?**

Discussion Session III

Way forward on ACER Regulation

Background

The recast on the Regulation establishing a European Union Agency for the Cooperation of Energy Regulators (ACER Regulation) is the last remaining legal act of the Clean Energy Package on which the Council has not yet adopted a General Approach.

The proposal for a recast ACER-Regulation maintained the current model of ACER as a coordination authority between national Regulators with monitoring, advice on regulatory issues and arbitration in case of diverging views as main functions. However, the recast ACER Regulation gives a limited number of new tasks to ACER⁴ and provides for some procedural streamlining of the network code process in order to allow ACER to deal with the challenges of electricity markets in the next decade.

While there is broad support for the majority of the proposed changes in the ACER Regulation, no agreement could be found so far on two main questions which define the balance of powers between national authorities and ACER.

Outstanding issues

❖ **Stricter limitation of arbitration competences**

Some Member States argue that there is a need to better delineate ACER's competences and propose notably a reduction of ACER's arbitration competences under the Third Package (i.e. decisions on conflicts between two or more regulators). This position is not shared by other Member States who want to preserve the current, more general definition of ACER's arbitration competences, arguing that ACER's competences should not be unnecessarily limited compared to the status quo, also with a view to the dynamic development of energy regulation (see Art. 6(8)).

❖ **Director Drafting**

It is undisputed that a positive opinion of the Board of Regulators should remain a condition to adopt the main acts of ACER. However, some Member States take the view that the Director's right to draft ACER acts should be transferred to the Board of Regulators to better reflect the central role of national regulators in ACER. Other Member States object to this proposed change and would like to maintain the solution of the Third Internal Energy Market Package (Third Package) (see Articles 23(5)(a) and 25).

⁴ See e.g. the involvement of ACER in the development of methods for the EU-wide adequacy assessment.

Aim of the discussion

The Bulgarian Presidency would like to carry out policy debate and receive political guidance to reach General Approach. Is the text proposed by the Presidency a basis to search for compromise at technical level? If not, what could be a basis for an agreement?

Questions

In view of the above, the Bulgarian Presidency would like to put forward for discussion and policy debate the following questions:

- 1. Should ACER's arbitration competences be limited to the legislation currently in force or should ACER have general competences on cross-border issues within the limits of the internal energy market legislation (existing and developing)?**
- 2. What should be the role of the Board of Regulators in proposing amendments to all documents containing opinions, recommendations and decisions?**