

**Speech by Jaroslav Neverovič,
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Joint Committee Meeting

The EU Internal Energy Market for the 21st Century

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Integration of Europe's energy systems

Madam Chair, Mr Chairman,

Dear Commissioner Oettinger,

Dear Mr Buzek,

Ladies and Gentlemen,

First of all let me thank the organisers for this event and for the opportunity given to share with you some views about EU energy policy, more precisely, about the integration of 28 national energy systems into a one large common energy market across the EU.

Let me briefly reiterate the **main aims of the EU energy policy**, that is to establish a sustainable European energy system, enhance competitiveness and improve security of supply for our citizens. In my opinion, the key tool at the EU's disposal is **a competitive and well interconnected Internal Energy Market. Therefore, the number one priority of the EU energy policy is its completion**. For that we need to address energy policy together – we need more Europe.

Accordingly, back into **February 2011**, EU Heads of States clearly committed to **complete the EU internal energy market by 2014 and eliminate energy islands by 2015**. During the Summit in **May**, this year, the **European Council tasked the Council** to report till the end of this year on progress regarding the elements agreed

as crucial in achieving the goals set. Also, given the increasing interlinking between internal and external energy markets, the May European Council also **requested us to review Council Conclusions of November 2011 on external dimension of the EU energy policy.**

The Lithuanian Presidency took the lead to fulfil these two tasks and paid huge attention in having extensive input provided by the Commission and the Member States. As a **concrete result of our efforts and commitment to completing the Internal Energy Market and strengthening the external dimension of EU energy policy, two Council Reports have been drafted.** They were tabled for endorsement by Energy ministers last week at December 12 Energy Council.

Self-control and self-evaluation is of crucial importance while aiming at such overarching goals – therefore, these Reports take stock of what has been achieved so far and identify areas for further efforts.

I see **harmonisation** of market and network operation rules together with adequate energy **infrastructure** as the **basis for integration**. And if I had to evaluate where we stand now with the Internal Energy Market project, I could firmly state that **we have already achieved a great progress** in integrating our markets, however, we have not yet arrived to our final destination.

To identify **essential elements for all of us to work out**, allow me to refer to what has been agreed among the Member States in the **Council Report on the Internal Energy Market:**

Firstly, further **energy market liberalisation** through full **transposition and implementation of the Third Energy Package together with adoption and application of networks codes**. This will ensure a stable, predictable and coherent regulatory framework which is a cornerstone of a unified European energy market with effective competition and active consumers.

I would like to stress the role of **network codes**. From my point of view the road towards the Internal Energy Market is grounded on the philosophy of regulatory convergence. **Harmonized EU-wide rules for the entire energy sector are critical to boosting cross-border energy flows and the consequent integration of markets.**

As you see, we have already agreed on a stable long-term regulatory framework enabling integration of energy markets. **What Europe needs today the most is full commitment by all Member States and strong enforcement from the guardian of the Treaty – the European Commission.**

Another crucial element to be further worked on is development of **energy infrastructure** with no delay. Europe needs a truly physically interconnected market – this is a precondition for a fully functioning Internal Energy Market, providing a solid backbone for electricity and gas flows where it is needed.

To achieve that, Europe must face immense **investment challenges** – we still need to connect ‘energy islands’, fully integrate intermittent renewable energy and replace retiring capacity.

This is firstly and directly linked to the implementation of **Projects of Common Interest**. The first PCIs list was officially presented for the first time in infrastructure conference in Vilnius at the beginning of November.

The **248 PCIs** have been elected by twelve regional groups and are the **priority projects** for ensuring the necessary interconnectivity among Member States. The PCIs list **targets infrastructure bottlenecks that are crucial for completing the IEM** and, importantly, **€ 5,85 bn** will be allocated from the EU budget for non-competitive energy infrastructure.

When implemented, PCIs will decisively contribute to the elimination of energy isolation, higher interconnectivity level and diversification of Member States' energy

sources, routes and suppliers. This will lower energy dependency and **increase energy security** in the whole EU.

In electricity sector, they will ensure adequate level of cross-border interconnection capacity – **almost all EU countries will achieve 10% interconnectivity target in electricity. This is critical to avoid renationalisation of energy policy**, cases which we can currently witness. In gas significant change will also occur – the **N-1 infrastructure standard will be fulfilled by majority** of Member States. In terms of access to new energy sources, **all Member States will have access to at least two supply sources**.

The PCIs list creates a precedent in the history of EU energy policy. It is a prominent example of European **solidarity** and a great achievement in interconnecting regional markets that will further unify into a single European market.

Now we have a very clear program ahead of us – **implementation** of these priority projects. To turn them into reality we need successful cooperation and agreeing on practical regulatory issues.

Outstanding challenges remain to be resolved before we can consider the Internal Energy Market as completed: effective unbundling of production and transmission activities, interconnectivity, smart appliances and grids capable accommodating variable renewable energies, network codes, empowering consumers to play active role in energy retail market.

I am confident that by the end of 2014 we will have made the decisive steps towards completion of the EU Internal Energy Market – now we shall ensure that **progress is not reversed by unilateral policy choices** that may fragment the European market.

We have to admit that **some of the EU energy policy areas remain national** and **in some cases state intervention in the market is needed** to achieve objectives, such as security of supply or combating climate change. Problems arise when these

interventions are poorly designed and occur without a proper consideration of their impact on neighbouring markets and on the EU internal market – such **national policy and regulatory choices can contradict the Internal Energy Market.**

As an example, currently **Member States' subsidies for renewables are purely national** and in practice we compete with these subsidies among ourselves. Well, this is how we ourselves **can cause collateral damage for the internal energy market by fragmenting and distorting it.**

Here, we can see positive changes – the recent **Commission Communication on public interventions in electricity market** provides much needed guidance on reforming national support schemes for renewable energy, design of back-up capacities and enhancement of the role of consumers in electricity market.

On **renewables**, the principles set out therein, like granting support limited to what is necessary, responding to falling production costs, providing stable regulatory framework, and ensuring integration as well as multiple benefits of renewables with less burden on final consumers, should definitely contribute to cost-efficient renewable energy development after 2020 and **prevent possible market fragmentation.**

As regards **generation adequacy**, it is my strong belief that the Commission's guidance will also contribute to ensuring that **generation adequacy is achieved in cost-efficient ways and without jeopardising the Internal Energy Market functioning.** It makes a significant contribution to a more European or regional approach in electricity markets – I refer here to the coherent criteria for an *ex ante* check of the conditions for the need to establish a capacity remuneration mechanism. Careful and comprehensive **evaluation of these criteria should prevent market distortions and inefficiencies**, such as support for inefficient plants.

Greater **demand side response and flexibility** is essential for the Internal Energy Market future. Demand side – households and businesses – shall be enabled to participate actively in the market. They should obtain the benefits of lower bills and at the same time help to optimize the use of infrastructure and to avoid new expensive investments. I see it as a greatly important element of an integrated European market **contributing to system efficiency and reliability**.

This Communication will be aligned with the new **state aid guidelines for environment and energy expected in 2014**. I believe, therefore, that they will provide clarity on the compatibility assessment of these measures under state aid rules bringing stability and predictability. A sound state aid framework will surely **contribute to European competitiveness and improve investor's confidence** – also critical elements for successfully integrating our energy markets.

In brief, an integrated energy market could enhance security, promote cheaper energy and favour the transition to renewable power – that is, achieve our common energy goals.

We already have good background on regulatory and infrastructure areas, what we need – is just to ensure proper implementation of it! This is the only way to convert our expectations into reality.

Thank you for attention!