A “J’Accuse” from an ex-EU official: only a real Energy Union can save the EU energy market

Sonja van Renssen

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Jean-Arnold Vinois (photo Security and Defence Agenda)

An “Energy Union” in Europe means that an EU-level organisation will balance the flows of electricity, not national transmission system operators. And it means the EU will ensure security of supply – not the national member states. That is the vision of Jean-Arnold Vinois, until recently Director in charge of the internal energy market at the European Commission and co-author of a groundbreaking report from Notre Europe (Jacques Delors Institute) on the Energy Union. As Brussels awaits the official version of the Energy Union from the Commission on 25 February, Vinois slams the current state of the European energy sector. The distribution system operators, he says, are ineffective, the generators are “dinosaurs”, almost no one is investing in R&D in energy, the decision to allow state aid to the nuclear project Hinkley Point C is “questionable” and the lack of solidarity EU countries show in regard to Putin is “sad”. He predicts IT companies may take over from the energy companies and the Chinese may blow away Alstom, Siemens and ABB.

Jean-Arnold Vinois is loving the liberty that comes with no longer actively working at the European Commission. The former Director in charge of the internal energy market retired in 2013 – although he remains an Honorary Director at the Commission – to join the respectable think tank “Notre Europe – Jacque Delors Institute”, founded in Paris in 1996 by the ex-Commission President of the same name. Here, he has co-authored a report with colleague Sami Andoura – with a preface by Delors himself – setting out an intrepid vision for the increasingly talked about Energy Union.

For Vinois, European energy policy began in 2007 with the adoption of the first climate and energy package and is set to undergo something of a seismic shift with the Energy Union. He expects that the European Commission will produce an EU-wide security of supply regulation for electricity, such as already exists for gas. He foresees networks operators and energy regulators operating at regional, then European, rather than national level as they are doing today. He says the internal market will optimise the fuel mix across Europe.

He also predicts the energy retail market will be shaped by IT companies – the distribution network operators (DSOs) can’t get their act together, he says, and the utilities are “dinosaurs” that have missed the energy revolution. Policymakers must take demand not supply as their starting point.

This is the first in a series of interviews that Energy Post will run in the run-up to 25 February, when the Commission itself is due to put some flesh on the Energy Union bones with a paper currently being drafted by Vice President for the Energy Union Maroš Šefčovič. Šefčovič set out five fundamental pillars back at his hearing before the European Parliament last October. Vinois gives Energy Post his vision.

Q: What, in your opinion, is the Energy Union?

A: It means you take the best of each member state and you combine them together, in line with the concept of the Energy Community that Jacques Delors developed in 2010. Nordpool, which is Europe’s most advanced cooperation, really seeks to combine its members’ strengths to mitigate their weaknesses. Everybody is still thinking in terms of the three pillars of 2007 – competitiveness, sustainability and security of supply. I think we need to go beyond these pillars and look at the energy mix in terms of optimisation of resources.

> ***“There must be a framework for security of supply for electricity at the European level. ENTSO-E should be authorised by Member States to coordinate the flows of electricity in***

> ***real time."***

For example, we should only subsidise the best wind and solar. That is why better interconnections between Spain, Portugal and France have to be looked at. Otherwise you end up with the Belgian situation: the country is struggling to have enough power – and is ready to subsidise it – when there is a gas-fired power plant across the border in the Netherlands that could help. Generation adequacy considered only at the national level is the most costly approach for citizens and the most detrimental to the internal market.

ENTSO-E should be authorised by Member States to coordinate the flows of electricity in real time. National authorities don't allow it because they still see security of supply as a matter of sovereignty. But security of supply at national level is nonsense if you are creating an integrated market. The integrated market should ensure the security of supply of all Member States.

Q: But we don't have a functioning internal market, especially at the retail level.

A: The remaining loophole in the European system at the moment is the retail market. It's made up of 3000 distributors of electricity and gas. These are organisations deeply embedded in local and regional politics, with complex remuneration systems. At the time of the third package the EU did not tackle the distribution network because of this complexity and diversity.

But one claim of the Energy Union is that we have to shift from a supply to a demand perspective. We have to look at consumers and the tools they need to manage their energy consumption. These tools may come from the energy sector itself (suppliers or distributors) or from outside companies like Nest (now part of Google) and Opower.

> ***"The phenomenon you see in taxis with Uber or in real estate with Airbnb may well be repeated in energy. The shift from supply to demand is a form of democratisation."***

In "smart grids" you have a battle between TSOs and DSOs over who will use the consumer data. But consumers say 'we're not ready to give you our data because one, you don't know what to do with it and two, we're not at all sure we'll get any reward'. In my view, it will be very difficult to facilitate consumer empowerment at European level with the retail market as it is now. Instead, IT companies will take the lead. They will get the data from consumers – through smart phones, for example – and they will act. They are already entering the energy sector and we will soon see more of that.

The DSOs have hardly been useful in this debate because there are four DSO organisations at European level: Eurelectric, Geode, EDSO and CEDEC. They should work together and be like ENTSO-E – that too was originally four or five different groups. While they are unable to get together, they are unable to tell the Commission what they really want and what they definitely do not want. The distribution sector remains a kind of black box.

Q: Can it be the utilities that supply these services to customers?

A: The utilities are facing an existential challenge: their value on the stock exchange has been divided by three. The stock exchange is valuing utilities for what they are: dinosaurs which have largely missed the energy revolution. Enel has a new boss from the telecoms sector and he's shaking up the whole company. At least they are anticipating. E.ON and RWE were late. And EDF will probably be last to change – it has the inertia of a model based on nuclear power plants.

Why do we talk about capacity remuneration mechanisms? Because utilities did not anticipate a reduction in demand from better efficiency and demand side management, and were reluctant to invest in renewables. In Germany, only 8% of investments in renewables have been made by utilities like RWE and E.ON. They have over-invested in the wrong assets. GDF Suez's [CEO] Mestrallet said last February they had to amortize €15

billion of stranded assets. They discounted the 2020 targets, as they thought efficiency and renewables would not happen, while continuing to invest in gas. The economic crisis did not help.

Q: Coming back to the Energy Union, what needs to happen today?

A: In our report we propose two tracks. First, we need an internal market which is working properly. This is the way to optimise resources. Not all member states have fully implemented the third [market liberalisation] package, although this should have been done by 2011. There are still regulated prices in 15 member states! If you are speaking about the market, let the market work and give signals to investors and consumers. The Commission has to act with authority to ensure the rules are applied.

Q: And the decision to allow UK state aid for Hinkley Point C, which some have criticised as a direct attack on the internal market?

A: Look at when this was done, quickly in October just before the end of the Commission – I personally find it questionable given the importance of such a case.

> ***"Look at the infringement procedures of the last years – Barroso was probably too nice, maybe because of the crisis. If you want to be respected, you need to infringe the Member States."***

On the other hand, I really appreciate the TSOs working together to establish the network codes. This is very important for the functioning of the grid and the internal market. National regulators are another issue. They are not yet all fully independent. National administrations are still putting pressure on them to do things they should not do, like regulating prices. ACER [the Agency for the Cooperation of Energy Regulators] should act much more as a European regulator – this means more empowerment and resources too.

To a large extent, the internal gas market has worked better after 2009 because of the [Ukraine-Russia gas] crisis. For electricity, a blackout could be a wake-up call. The interdependency is there. When the French have a very cold wave and everybody switches their electric heaters on, it draws too much capacity; France could get spare capacity from its neighbours. Maybe because EDF is a national company they have not really built on this. They have built on the export of their surplus but not on imports from others. They prefer national solutions which cost consumers more. Energy Union means solidarity. We have done stress tests in gas and the recommendation was more interconnections, more cooperation. In electricity it's exactly the same.

> ***"We have a European regulator in the banking sector – ECB is doing it as a result of the crisis. Do we need a blackout at European level to have a European regulator in energy? It's time to look at regulating where the market is."***

Q: Are we talking about a proposal for an EU-wide capacity market?

A: No. We should have, like for gas, risk assessments of vulnerability, preventive action plans and emergency plans. These could also be done on a regional basis. They are spelled out in the 2010 regulation on security of supply for gas, but there is no electricity equivalent. Only an old directive from 2005 which predates the third package and is rather outdated. We need a regulation for security of supply for electricity, now, to frame at European level the generation adequacy constraints, the possible capacity market, the role of a regional approach, preventive and emergency action plans, coordination of TSOs etc. I think the European Commission is preparing one.

Q: So the immediate priority is to fix the internal market. Then what?

A: So far this is all classical energy policy, a prerequisite. But the Energy Union goes beyond that. We've

identified ten [longer term] building blocks [see Box at the bottom]. First, you start from demand, not supply. This changes the perspective. Suppliers are interested in selling more cubic metres of gas, more kWh. With demand, you are going towards another economy, a service to the consumer. There is huge potential. You can probably reduce demand by 30% in electricity, before even talking about supply. And it's not difficult. You have insulation of buildings, demand side response etc. I just replaced all the lights in my living room: 150 W by 10W and my light is much better. If light is 15-20% of an electricity bill and everyone switches to 1W LEDs, several power plants can close.

> ***"We are proposing a sustainable model of energy which is based on demand, on the real needs of people and not on suppliers who are just interested in selling more."***

Second, we say you need an industrial energy strategy driven by innovation. You need to spend money not on the deployment of existing technologies – as has been done for wind and solar – but on real innovation. A 1W LED is a true innovation. But it can happen in the transmission and distribution system too. 3M has a technology today that can double the capacity of an existing transmission line.

If we don't do it, the Chinese will. They are doing a lot and they are coming to Europe. Look at the State Grid Corporation of China, its power, their engineers and their eagerness to innovate at a speed which our companies are not even seeing. They will quickly overtake Alstom, Siemens and ABB if these do not react.

Q: How do you kick start such an industrial innovation strategy?

A: You need to cluster energy people with telecoms people. We have good companies but we need an "energy valley", like Silicon Valley. The money is there, not only in Juncker's [€315 billion investment] plan but also in Horizon 2020 [for R&D] and structural funds [for regional development]. The lack of projects is the problem.

Q: But over 2000 projects have been put forward for Juncker's plan.

A: Some are for the next decade while we're looking for the next three years. The Commission got €4 billion [in economic recovery funds] for energy in 2010. One billion was committed to projects that are not working. It's not a lack of money it's a lack of projects, perhaps a lack of imagination.

That's why we say that third, you should look at education. R&D in energy has been close to zero in the last ten years. The only utility spending significant money was EDF (mainly for nuclear). But the rest: next to nothing. They just sell kWh or m3 [of gas] to their clients. And now they pay the price. If Europe still wants to play a role in the field of energy in ten years time, we need to fix this.

Education also means telling people what energy is and what it requires. Public acceptance is a problem linked to a lack of knowledge. A blackout would make people understand it's not all coming for free, you cannot be against everything.

Q: What other building blocks?

We think energy poverty should be tackled as a social policy, not an energy policy. You need to look at all the aspects, also housing and where the poor live, not just the bill otherwise you address the consequence, not the whole issue.

> ***"Our industry has always been laidback because our utilities were laidback. In energy, like in railways, there has been a cosy collusion between manufacturers and operators. We need to use energy as a vector of innovation."***

We need public-private partnerships for low-carbon cooperation and development. We can combine our expertise in renewables with aid funds to go to Africa and Asia to help people get access to electricity.

We think there must be much more visibility for energy policy and that is why we say there should be a State of the Energy Union . We also propose an agency (or directorate) for energy and climate information, like in the US. When US visitors come to the Commission, they come with their own info about the EU and they are usually the better informed! That's not acceptable. If you want a public policy that is respected, you need the right tools. We have Eurostat, national institutes, a network of universities doing modelling for the Commission, but it's not enough. If we have the right analysis, we can tell people we are dependent on Russian gas but it's not a problem.

Q: Do you believe in a common gas purchasing platform?

A: There could be some very ad hoc purchasing mechanism that is justifiable under competition and internal market rules. The best-known is the Caspian Development Corporation. This was a reply to Turkmenistan's offer to sell the EU 30 bcm of gas per year. They wanted a single buyer (they sell 60 bcm to China every year), but no single buyer in the EU can take more than 5 bcm. So you need to aggregate. But this concept was heavily criticised by EU companies. The EU is a market economy where individual companies compete for gas supply contracts. That is the very core of the internal gas market. So we got nowhere. That's a pity.

> ***"We are the world's biggest market – 500 million consumers – and we are not leveraging this in our relationship with third countries. That's ridiculous."***

We need European energy diplomacy. Look at South Stream. President Putin has really divided Member States. He [imposed legal provisions that] prevented the Greeks from speaking to the Bulgarians and vice versa. And we let that happen. It's very sad. After the crisis in 2010, countries had to notify their intergovernmental agreements to the Commission and it became clear that several bilateral South Stream treaties with Russia did not abide by EU rules.

The EU should use its trade competence to promote European energy interests. It should have a policy vis-a-vis third country companies coming to Europe.

Q: What's the most challenging aspect of the Energy Union?

A: Unity in diversity or optimisation of resources, as I said at the start. It took five years to convince Romania (which has a lot of gas) Bulgaria (which has none) and Greece (which has an LNG terminal) to work together. Although it's so obvious. Optimisation of resources means solidarity and that's in the Treaty since 2010.

Q: We don't need Treaty change to take the Energy Union forward? To stop the energy mix from being a national competence, for example?

A: Absolutely not. All we say, you can do today with what we have in the existing Treaties and legal instruments.

Q: Is there really a genuine desire to work together in Europe?

A: Yes. Remember that a meaningful European energy policy only exists since 2007. It started with the European Council conclusions under Angela Merkel about the 20-20-20 goals for 2020. Some say climate change was the (only) driver of energy policy at that time. Remember that in 2007, it was all about sustainability. The economy was at its peak. Resources were thought to be in short supply. We were discussing peak oil and the oil price went to US$ 147 a barrel in July 2008.

Of course all the unexpected events after that – the financial and economic crisis leading to a major reduction in energy demand, the 2009 crisis with Russia and Ukraine, the shale gas revolution in the US, and Fukushima and the German nuclear phase-out – really distorted all the hypotheses of 2007. But the progress made in the last 10 years is still absolutely tremendous. We need to build on this and the Energy Union is a qualitative step forward.

Q: How is the Energy Union different to what has come before?

A: You have it already in bits and pieces. What we propose is a holistic approach with something to satisfy everybody. Because that's also an EU reality – you need to give each Member State something. It's more likely today because of the progress of the last ten years. Players such as ENTSO-E and the regulators are already organised at European level. They are aware there is a European market. The political will remains the big issue. You only interest heads of state and government if you come up with something sexy. You need a convincing narrative. The internal market was the narrative in 1985 when Jacques Delors became President of the Commission. An Energy Union to manage the energy transition [to a low-carbon economy] is a project that deserves a convincing narrative today.

> ***10 building blocks for the future Energy Union***

1. *A new economic growth model – a shift from the supply side to the demand side*
2. *An industrial energy strategy driven by innovation*
3. *Invest in education on the challenges and behaviours around the energy transition*
4. *A social energy policy*
5. *Innovative governance leading to the State of the Energy Union*
6. *Unity in diversity – European optimisation of resources and infrastructures*
7. *An energy trade policy for the defence and promotion of the EU's sustainable economic interests outside the EU*
8. *European PPPs for low-carbon energy cooperation and development*
9. *A European Energy Diplomacy – A single message with multiple voices*
10. *A European Energy and Climate Information Agency: a common platform for common analysis, understanding and forward-thinking*

Editor's Note

The report "From the European Energy Community to the Energy Union – A new Policy Proposal", written by Sami Andoura and Jean-Arnold Vinois (foreword Jacques Delors) and published by Notre Europe – Jacques Delors Institute, can be found here.

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when Vice President for the Energy Union Maroš Šefčovič is expected to come out with his vision.