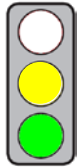


## KEY ISSUES

**Objective of the Communication:** The Commission provides information about the level achieved by the Member States in reaching the 2020 10% electricity interconnection target and makes suggestions on how to speed up the construction of cross-border power lines.

**Affected parties:** Whole economy, particularly the electricity sector.



**Pro:** (1) The expansion of cross-border electricity infrastructure is vital for a secure, low-carbon electricity supply at affordable prices.

(2) Focussing on four "priority power corridors" may facilitate the deployment of funding in those areas where it produces the greatest benefit.

**Contra:** Instead of a uniform EU electricity interconnection target, small Member States should try to achieve a higher level of interconnection than the larger states.

## CONTENT

### Title

**Communication COM(2015) 82** of 25 February 2015: **Achieving the 10% electricity interconnection target**

### Brief Summary

#### ► Context and objectives

- The national power grids of the Member States will become more interconnected by developing cross-border power lines. This (p. 3 et seq.)
  - increases security of supply by reducing the risk of power cuts and the EU's dependence on fossil fuel imports,
  - increases competition among power suppliers and the efficiency of power generation which will lead to cheaper electricity prices for consumers and annual savings of between 12 and 40 billion euro, and
  - reduces CO<sub>2</sub> emissions in the electricity sector because interconnected power grids will be more capable of absorbing large fluctuating amounts of electricity from renewable energy sources.
- "Electricity Interconnection Target": By 2020, the capacity of cross-border electricity interconnections with other Member States will constitute at least 10% of the domestic electricity generating capacity of every Member State ("interconnection level") (as already set forth in [Conclusions](#) of the European Council of 23/24 October 2014, para. 4).

#### ► Status quo as regards achieving the 10% electricity interconnection target

- In recent years, the average interconnection level in the EU has risen due to the completion of cross-border power lines. The interconnection level varies, however, among the Member States. In 2014, it ranged from 0% in Malta and Cyprus to 245% in Luxembourg. 16 out of 28 Member States – including Germany – currently already comply with the 2020 electricity interconnection target. (p. 4 et seq.)
- 2020 will see the completion of additional interconnections which have been funded by the EU with € 650 million from the European Energy Programme for Recovery (EEPR). This will enable the Baltic States and Malta to achieve the electricity interconnection target. (p. 8/9)
- The Commission calls for faster expansion of the trans-European energy networks (TEN-E) and for the Member States to fully implement the TEN-E Regulation [(EU) No. 347/2013, see [cepPolicyBrief](#)] (p. 10). Under this Regulation, the electricity and gas lines necessary for completing the internal market must be identified as "Projects of Common Interest (PCIs)" and the time for permit granting limited to 3.5 years (see also [cepCompass EU Climate and Energy Policy](#), see 104 et seq.).
- In 2013, 52 electricity interconnection projects were identified as PCIs, of which 37 relate to Member States with an interconnection level below 10% (p. 6/7).
- If PCIs are completed on time, the UK, Ireland, Italy, Poland, Portugal and Romania will achieve the electricity interconnection target for 2020. In the case of Spain and Cyprus, even where PCIs are completed on time, they will not reach the 2020 target. (p. 8 et seq.)

#### ► Financing the development of infrastructure

- The Commission estimates that the cost of "adequately" interconnecting the EU electricity supply by 2020 will be € 105 billion, of which € 35 billion relates to the construction of interconnections in order to meet the electricity interconnection target (p. 10).
- Approx. 3% of PCIs may be funded by the Connecting Europe Facility (CEF) [p. 11; see also CEF Regulation (EU) No. 1316/2013]. Funding from the CEF will therefore be

- focussed on "a few critical" PCIs and
- combined with other funding sources such as network charges and project-based loans.
- The European Regional Development Fund (ERDF) is making approx. € 2 billion available between 2014 and 2020 for "large electricity and gas infrastructures" in the EU (p. 11).
- The European Fund for Strategic Investment (EFSI), created in January 2015 [Communication COM(2015) 10; see [cepPolicyBrief](#)] will receive € 16 billion from the EU budget and € 5 billion from the European Investment Bank and will mobilise private and public investment amounting to € 315 billion by way of co-financing, subsidies and guarantees. The EFSI can also be used to help finance PCIs in the EU.
- ▶ **Strengthening regional cooperation**
  - PCIs will be realised by way of a "regional approach" that "transcends the individual project level" (p. 12). In this regard, "priority power corridors" will be established.
  - The four power corridors are [see also Annex I TEN-E Regulation (EU) No. 347/2013, see [cepCompass EU Climate and Energy Policy](#), p. 104]
    - Northern Seas Offshore Grid (NSOG),
    - North-South Interconnections in West-Europe (NSI West Electricity),
    - North-South Interconnections in Central Eastern and South Eastern Europe (NSI East Electricity) and
    - Baltic Energy Market Interconnection Plan ("BEMIP Electricity").
  - For each priority power corridor, a "Regional Group" has been set up.
  - The four Regional Groups
    - consist of representatives of the Member States, transmission system operators, promoters, regulators and the Commission [p. 12; see also Annex I TEN-E Regulation (EU) No. 347/2013, see [cepCompass EU Climate and Energy Policy](#), p. 104];
    - propose the PCIs which are finally established by the Commission and monitor their implementation.
  - According to the Commission, the work of the Regional Groups must be enhanced particularly in the following areas (p. 13):
    - The power grid in the Baltic states must be connected to the Continental European Network.
    - Improving the level of interconnection of countries surrounding the Northern Seas will facilitate the supply of large volumes of electricity from off-shore wind farms.
    - The Iberian Peninsula (Spain, Portugal) must be more closely connected to the European power grid.
    - The interconnection level in Central and South Eastern Europe must be increased.
  - The Regional Groups will
    - improve the coordination of their working practices and – where possible – align them, and
    - draw up an action plan with concrete "milestones" regarding the implementation of PCIs and achieving the electricity interconnection target.
  - At the end of 2015, the Commission will convene an Energy Infrastructure Forum to discuss issues that are common to all regions of Europe.

### Statement on Subsidiarity by the Commission

According to the Commission, EU action is necessary in order to press ahead with major energy policy projects (p. 16).

### Policy Context

In 2002, the European Council passed an electricity interconnection target of at least 10% by 2005 ([Conclusions](#) of 15/16 March 2002, para. 37, p. 15). In 2007, it postponed the achievement of this target until 2020 (Conclusion of 8/9 March 2007, Annex I, p. 18). At its conference on 23/24 October 2014, the European Council affirmed this electricity interconnection target and passed a further one of at least 15% by 2030 ([Conclusions](#) of the European Council of 23/24 October 2014, para. 4; see [cepInput Climate and Energy Targets 2030](#)). In order to realise these two goals, implementation of the PCIs will be given the highest priority. The European Council called on the Commission to monitor progress on implementing the PCIs and achieving the electricity interconnection targets and to provide it with a report about all available sources of funding in this regard. This Communication represents the Commission's response to that request. The Communication forms part of the Energy Union Package which also includes the Communication on Energy Union [COM(2015) 80, see [cepPolicyBrief](#)] and the Communication on the Paris Protocol to combat global climate change after 2020 [COM(2015) 81, see [cepAnalyse](#)].

## Options for Influencing the Political Process

Directorates General: DG Energy (leading)

# ASSESSMENT

## Economic Impact Assessment

### Ordoliberal Assessment

**Expanding cross-border electricity infrastructure is** – as the Commission rightly states – **vital for a secure, low-carbon electricity supply at affordable prices**, firstly, because cross-border electricity lines represent a basic requirement for cross-border competition between electricity producers in the internal market which will tend to lead to cheaper electricity prices in the EU. Secondly, they are necessary in order to facilitate a sustained increase in electricity generation from renewable energy sources since only interconnected power grids are capable of absorbing larger and more variable volumes of wind and solar energy. This lowers the costs of carbon-free electricity generation and at the same time, has a positive effect on security of supply because it reduces the risk of power cuts due to network congestion.

Increased cross-border competition due to the development of cross-border electricity infrastructure can also have a negative effect on security of the electricity supply, however. This is because it can aggravate the problem whereby very low wholesale electricity prices prevent conventional power stations – which are necessary for security of supply – from operating economically. The Commission should therefore submit a proposal, without delay, on how secure generating capacity is going to be financed in the future.

### Impact on Efficiency and Individual Freedom of Choice

A fixed electricity interconnection target, which every Member State must achieve by 2020, provides the Member States with a clear point of reference which they can use to orient themselves and which makes it easier for the Commission to check compliance. Varying national targets, which take account of characteristics such as size and geographical location, should, however, take priority over the planned uniform EU target of 10% because larger Member States tend to have larger national power grids to which a larger number of power producers are also connected. This gives domestic consumers more protection against power cuts and the market power of individual national electricity producers. **Small Member States** – which on average already have a relatively high interconnection level in any case – **should therefore try to achieve a higher interconnection level than the large Member States**; this will not be the case with a uniform EU interconnection target of 10%.

**Consistent implementation of the TEN-E Regulation** by the Member States **is necessary in order to avoid investment risks for cross-border energy infrastructure projects**. In particular, it must be ensured, in the case of PCIs, that the maximum permitted time for the granting of permits does not exceed 3.5 years because otherwise investors will shy away from these projects due to unpredictable permit proceedings lasting for decades.

Since, as a result of a higher interconnection level, the security of the electricity supply increases and wholesale electricity prices fall, the electricity consumers who benefit from this should bear the bulk of the necessary infrastructure costs by way of network charges. Funding from the Connecting Europe Facility or the European Fund for Strategic Investment should be limited in application to those cross-border projects that are important for the development of regional or even EU-wide interconnection insofar as electricity consumers from various Member States benefit from such interconnection and where an appropriate allocation of the costs of financing by way of network charges is difficult.

Focussing on four "priority power corridors" may contribute to funding being deployed, not on the basis of proportional quotas but according to where it gives rise to the greatest benefit.

### Impact on Growth and Employment

A sufficient electricity interconnection level between the Member States favours a secure and affordable electricity supply and thus has a positive impact on growth and employment.

### Impact on Europe as a Business Location

A sufficient electricity interconnection level between the Member States favours a secure and affordable electricity supply and thus has a positive impact on Europe as a business location.

## Legal Assessment

### Legislative Competency

Unproblematic. The EU is entitled to support the interconnection and interoperability of national energy networks (Art. 170 (2) TFEU and Art. 194 (1) (d) TFEU). Although responsibility for the planning and construction of energy infrastructure lies primarily with the Member States, the EU can contribute specifically to the establishment and development of the TEN-E (Art. 170 (1) TFEU) in order to achieve the internal market (Art. 26 TFEU) and to strengthen the economic, social and territorial cohesion within the EU ("Cohesion", Art. 174 TFEU).

### Subsidiarity

Unproblematic. Measures to increase the electricity interconnection level between the Member States require action at EU level.

### Conclusion

The expansion of cross-border electricity infrastructure is vital for a secure, low-carbon electricity supply at affordable prices. Small Member States should aim for a higher interconnection level than the larger states. The consistent implementation of the TEN-E Regulation is necessary in order to avoid investment risks for cross-border energy infrastructure projects. Focussing on four "priority power corridors" may contribute to funding being deployed where it gives rise to the greatest benefit.