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European Energy Regulation: A Bridge to 2025

E3G response, 16 June 2014

E3G congratulates ACER for the Bridge to 2025 consultation paper. We trust that the proposals set out can effectively support the on-going integration and efficient operation of the internal energy market. This is an important objective since the cost efficiencies provided by integration ensure that **delivery of broader energy policy objectives is more resilient to future shocks and uncertainties.**

However, in this answer to the public consultation, we would like to help ACER identify additional reflexion which may be required to ensure the efficient operation of the internal energy market.

It has become increasingly apparent that the market left to its own device will not lead to the deployment of resources of sufficient diversity and quantity to create a robust energy system. This has resulted in an increasing array of interventions to promote deployment of low carbon resources, generation adequacy and to drive energy efficiency. Although some of these initiatives are derived from foundational EU-level legislation, delivery mechanisms tend to be determined and implemented at Member State level.

In effect, **the role of strategic planning is a far greater component of the energy market than is widely acknowledged**, including by ACER in the public consultation document. It remains an open question as to how long the market will require interventions of this nature. However, it is likely that whilst delivery of policy objectives remains challenging, and in the absence of a truly active and engaged demand side to the market, strategic planning will remain an important aspect of the energy market. **It is reasonable to expect these conditions to continue throughout the period out to 2025.**

Unfortunately, the failure to acknowledge this reality creates **two key challenges**:

> **The institutional structure is not well designed to deliver effective and coherent strategic plans**

A particular concern relates to the strategic development of the demand side of the market. Generation deployment is driven by generation adequacy targets and low carbon deployment plans and regulators approve the network development plans of TSOs. Putting aside the lack of coherence between these activities, there is no institutional basis for driving the deployment of demand side resources to ensure overall efficiency by examining how this might offset the need for generation or network investment.

- > **There is a high risk of incoherence and sub-optimality as planning is focused on sub-sectors and particular geographies.**

The inconsistencies in the approach to strategic planning also undermine moves to deliver market integration. Member States will tend to favour their indigenous resources and networks will not be developed on the expectation of large power flows across the continent. This significantly diminishes the potential for reducing overall energy system costs.

We believe there is a need for new thinking and that regulators have an important role in driving this debate. The efficiency gains available in ensuring coherence between the strategic planning processes are likely to far outweigh those available whilst generation, network and demand side issues are considered separately and on a Member State specific basis.

It is not within the gift of regulators to deliver this coherence. However, regulators do have the opportunity to consider where barriers to overall system efficiency exist and how these might be overcome. Acknowledging and considering this new reality should, therefore, be an important task for regulators over the coming years.

About E3G

E3G is an independent, non-profit European organisation operating in the public interest to accelerate the global transition to sustainable development.

E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change.

E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

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