

Our position

Clean energy for All Europeans Package Recommendations from the perspective of investors & energy users

AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate US investment in Europe totalled more than €2 trillion in 2016, directly supports more than 4.5 million jobs in Europe, and generates billions of euros annually in income, trade and research and development.

Executive summary

The Clean Energy for All Europeans package provides an integrated approach to EU energy policy and proposes useful measures to adapt market rules to new generation and consumption patterns. It restores some market signals and a level playing field for all energy sources, empowers consumers and new players such as aggregators or storage providers, and rewards flexibility which will be a driver of future power system operations. However, some key investment signals are still missing.

AmCham EU calls for a technology neutral and cost-efficient transition to a low-carbon economy. We believe further ambition for energy efficient renovation of the existing building stock, both public and private, should be reflected in the package, as the building sector has a large untapped potential for energy efficiency and savings.

Moreover, AmCham EU actively calls for the coherence of the entire package to be maintained and for long-term investment visibility to be enhanced.

Introduction

The American Chamber of Commerce to the EU (AmCham EU) welcomes the ‘Clean Energy for all Europeans’ package, as it provides a vision for the post-2020 landscape of the energy sector in Europe.

As both investors in the European energy sector and large energy consumers through their manufacturing footprint, AmCham EU members work to ensure affordable and reliable energy supply along with the overarching decarbonisation objective. We envision a gradual, cost-efficient decarbonisation of the EU power sector by further increasing the share of low-carbon electricity.

We support the integrated approach taken by the European Commission on this matter. An efficient energy system has to consider the interdependence between generation, transmission and consumption of power. At the same time, it must integrate the multidimensional framework where all these elements are directly linked. We encourage the co-legislators, even if working on individual proposals, to closely cooperate with stakeholders and decision makers working on related proposals of the package. This integrated approach should avoid overlapping policies and leverage the synergies of the different pieces of legislation.

AmCham EU has already developed a series of dedicated policy positions on energy policy proposals such as Electricity Market design¹, Energy Performance of Buildings², and the EU Emissions Trading System³. With this paper, our intention is to demonstrate that further integration of the energy market is essential for both energy users and investors to further support European decarbonisation

¹ Available [here](http://www.amchameu.eu/system/files/position_papers/tec_electricity_market_design_final_0.pdf) - http://www.amchameu.eu/system/files/position_papers/tec_electricity_market_design_final_0.pdf

² Available [here](http://www.amchameu.eu/system/files/position_papers/tec_epbd_review_final.pdf) - http://www.amchameu.eu/system/files/position_papers/tec_epbd_review_final.pdf

³ Available [here](http://www.amchameu.eu/system/files/position_papers/tec_ets_reform_proposal_final.pdf) - http://www.amchameu.eu/system/files/position_papers/tec_ets_reform_proposal_final.pdf

objectives and to make the energy market more efficient in Europe. Setting the right investment framework is key in this case.

Restoring market signals is the first step in meeting the needs of the Energy Union

A new energy landscape requires new market design rules

AmCham EU welcomes the market signals proposed in the package. It is important to restore those to meet generation and infrastructure needs. While in the past electricity market design rules have been designed for market liberalisation and security of supply, new challenges that have arisen since should also be considered.

For instance, energy production resources have diversified, leading to new opportunities and challenges. Consequently, some regulated schemes aimed at supporting the large-scale deployment of mature renewable sources are no longer the most appropriate mechanisms. While the promotion of renewables is essential for their uptake, the immediate political focus should now lie with supporting the deployment of cost-effective technologies. The investments needed in infrastructure projects for integrating such renewables and other enabling technologies such as energy storage and smart grids are crucial as well.

AmCham EU supports the Commission's proposals which aim to create a level playing field among all energy sources and technologies. Regarding energy storage, the ownership provision as well as the objective to avoid double charges as proposed go in the right direction. Nevertheless, some further measures related to non-discriminatory grid network charges should be included in the legislation to allow a large-scale deployment of storage technologies.

The EU should ensure the supply of electricity at a competitive price

High electricity costs already penalise EU-based industrial production, a fact that has been eloquently outlined in the International Energy Agency's (IEA) World Energy Outlook 2013. European electricity costs are more than double of those in US and Russia and 20% higher than in China. By 2035, electricity prices in the EU are projected to become the highest among leading industrial economies.

This package is an opportunity to bring both retail and industrial consumers to the centre of the EU energy policy. In this regard, we believe that the gap between electricity wholesale and retail prices should be addressed by EU institutions and national governments, as it can only be explained by distorting schemes, public interventions and tax levies on electricity⁴. It is therefore important to look beyond the marginal cost of electricity generation and take into account the systems costs – i.e. the

⁴ European Commission. (2017). Energy prices and costs in Europe.. Retrieved August 28, 2017, from <http://ec.europa.eu/energy/sites/ener/files/documents/com_2016_769.en_.pdf>

impact of a power plant on the electricity system as a whole – comprising transmission and distribution maintenance, grid losses, balancing costs, basic electricity service provision and system management costs⁵.

The new electricity market design should be technology neutral and provide signals that will steer investments into cost-efficient low-carbon technologies. Thereby, we believe that capacity remuneration mechanisms should only be used as a last resort and on a strictly time-limited basis to address a short term failure in the security of supply. A well-designed capacity mechanism needs to be open and take into account electricity that can be provided across EU borders.

As an alternative to capacity remuneration mechanisms, other tools can help to meet a cost-effective supply of electricity such as:

- Enhanced European coordination and enlargement of cross-border grid capacities, which would help to further reduce the need for (national) capacities;
- Increased transmission and strategic interconnector capacity, which could optimise allocation and congestion mechanisms;
- Simplified permitting procedures for new generation capacity and energy storage,
- Research and innovation into economically viable methods of electricity storage, which should be particularly stimulated.

A functioning EU energy market needs to reward flexibility

AmCham EU favours market signals as the primary tool to identify investment needs in new flexible power generation capacity. This also implies a coherent assessment of adequacy needs.

In this regard, the adequacy assessment should not only focus on generational capacity but also consider auxiliary grid services and short-term flexibility to meet peak demand to ensure complete system integrity.

Rewarding flexibility requires the creation of a market for energy services, which recognises rapid, flexible generation, storage and demand management alongside the traditional ‘energy-only’ market focused on generation.

Digital and modern technologies are critical enablers of the low-carbon economy transition

As the European Commission noted in its *Communication on ‘Digitising European Industry’*, technological breakthroughs such as the Internet of Things (IoT), Cloud Computing and Big Data analytics may drive a new industrial revolution.

⁵ International Energy Agency. (2013). Electricity Networks: Infrastructure and Operations - Too complex for a resource?. IEA.

In the building sector, smart and connected buildings should be seen as an integral part of a well-functioning, integrated EU electricity market. Buildings can both store and generate energy, they are not just a major energy consumer. Reducing the energy consumption and CO₂ emissions of buildings also relies on innovative materials such as plastics – which contribute to insulation, window installation, piping and roofing. Over its lifetime, plastic insulation saves more than 200 times the energy used in its manufacturing. Therefore, as a prerequisite, AmCham EU supports further ambition for energy efficient renovation of the existing building stock, both public and private.

AmCham EU agrees with the Commission's intention to encourage the use of ICT and other modern technologies, including building automation.⁶ Building automation systems are essential to a full understanding and control of energy consumption and production. Such a system can also detect efficiency losses in equipment use and allow for a quick servicing/repair, even remotely. Therefore, they should be made mandatory for larger commercial and public buildings (this is currently optional).

AmCham EU welcomes the Commission's proposal to increase new buildings' ability to connect to vehicle charging and to support demand response in a modernised electricity market. In the future, this will not only help deploy electric cars but also allow new technologies like vehicle-to-grid interconnections to be further developed.

On the role of digital technologies, it is important to maintain coherence between the Energy Package and the Digital Single Market initiatives. In this respect, the difference should be made between commercial, industrial and consumer Internet. The industrial Internet refers to the integration of physical machinery with networked sensors and software. It gathers data from machines, analyses it in real-time, and then uses it to detect flaws and reduce unplanned downtime. It is important for regulators to recognise the potential impact and benefit of such technologies, build trust and a coordinated policy framework to leverage the inherent potential of digital technologies, particularly in the context of energy policy.

How to fully secure investments for a low-carbon economy

The EU has been successful so far in integrating a significant share of renewable energy in its mix, thereby decreasing its greenhouse gas (GHG) emissions. Today's challenge lies in adapting the current regulatory measures and technical parameters to accommodate this significant share of renewable energy in the system. The current package provides some useful measures to adapt the current market rules to these new generation and consumption patterns.

Nevertheless, it is important to stress that deploying high shares of renewable energy does not, per se, mean EU decarbonisation targets are met. In the long run, the EU will need to set stable rules to secure the investment required to bring its power system to the next level of decarbonisation.

⁶ European Commission. (2016). Digitising European Industry Reaping the full benefits of a Digital Single Market. Eur-lex.europa.eu. Retrieved August 28, 2017, from <<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016DC0180>>

Clear price signals are paramount to drive the EU to the next level of decarbonisation

Today, low-carbon investments are facing significant challenges:

- Low wholesale prices do not always provide sufficient revenue to the investor;
- The carbon price, which was set to drive investment in low-carbon technologies, is not delivering as expected at the moment;
- Uncertainty over fuel prices adds another layer to the overall risk of such projects.

On top of these challenges, Europe has to face a situation of overcapacity in electricity supply which drives down the impact of scarcity prices, also supposed to provide an investment signal.

The current regulatory framework should deliver long-term visibility to investors in supply generation and infrastructure. This should not be understood as a plea to restore fixed and subsidised tariffs, but as a call for a framework that allows market rules to mitigate the risks associated with high capital expenditure (CAPEX) projects.

Such a framework entails strengthening the carbon price signal in order to create a level playing field for all technologies to respond to market needs. Secondly, the overcapacity issue should be addressed to restore market dynamics. Thirdly, the framework should let the market create the conditions for the investors to mitigate the risk of a project. This can be done through, for example, long-term contracts or renewables corporate power purchase agreements (PPA) to provide investors and financial actors with the long-term visibility needed for such investment decisions.

Besides, in not entirely functional and transparent markets, price signals may be insufficient or hard to read. Efficient large-scale energy investments require price signals coming from the free flow of energy, rather than a fragmented collection of national price signals. For these reasons, we need to ensure the free flow of energy across Member States, in order for the right price signals to come about and truly drive investment.

Interconnections will be instrumental to the free flow of energy across Europe. AmCham EU supports the Commission's proposal for a 15% target for interconnection among Member States. We also support the progress planning and reporting stated in the Governance regulation. The absence of interconnection and cross-border projects is one of the main shortcomings of the current EU electricity grid, and making progress on this front is critical. We encourage synergies between national objectives and EU financing schemes, whether they be the new generation of EFSI or the future MFF, currently undergoing its midterm review.

Stable regulatory framework and legal predictability will be essential to drive investments

Investment clarity is necessary and will require a combination of clear policy frameworks and efficient, competitive markets. Together these will secure the delivery of the large amount of investments needed especially in energy efficiency, renewable energy sources and infrastructure. Compelling Member States to produce and implement 10-year plans, sharing these with the public, and explicitly warning against retroactive changes, is a net improvement to the current status quo.

An orderly and predictable implementation of national plans, as well as proper and timely implementation of existing legislation, will raise trust and help companies make critical investment decisions.

This is all the more important considering the enormous investments needs the EU has in the energy sector. As indicated by the European Commission, the EU requires about €379 billion investments annually over the 2020-2030 period to reach its 2030 climate and energy targets⁷. Building and ensuring the financing capacity as well as addressing the associated risks of projects will be crucial for these investments to take place.

Also, the EU should ensure a smooth transition to market-based arrangements, avoiding any retroactive legislation. This could be the case, for example, of guarantees of origin (GO) under the Renewable Energy Directive II, where the Commission's proposal does not adequately reflect the business model behind these certificates for corporate actors.

Guarantees of origin are the certificates which are traded to prove the energy needs of corporate actors or local authorities have been met with renewable sources. The Commission proposes to prevent double subsidies, by allowing only renewable energy which has not been subsidised to be eligible for GO trading. While AmCham EU understands this motivation, it raises some questions about potential retroactive changes in projects which are already in place. In the meantime, this uncertainty refrains GO users from entering into new projects. These certificates, though not always essential to the corporate purchasing of renewables, have proved helpful for some international corporate reporting obligations. They are also a source of flexibility in case a corporate actor with a 100% renewables pledge must all of sudden consume more energy than planned because of an unexpected rise in demand. AmCham EU, therefore, recommends that the exclusion of subsidised renewables from GO trading be only applicable to new installations.

Finally, the Governance proposal represents a unique opportunity to assess and avoid risks of policy overlaps. By adopting a comprehensive view of the package and by leveraging synergies between legislation, mainly energy efficiency, renewables and ETS, there is an opportunity to avoid contradicting measures and ultimately counterproductive effects. Proper assessment and transparency are needed as to whether such policies turn the EU ETS into a residual policy instrument, as carbon savings would be achieved through other policies and potentially not in a cost-competitive way.

⁷ European Commission. (2017). Clean Energy For All Europeans Communication. Retrieved August 28, 2017, from <https://ec.europa.eu/transparency/regdoc/rep/1/2016/EN/COM-2016-860-F1-EN-MAIN.PDF> - page 4

Capital markets will have to develop innovative forms of financing

The areas identified in this paper go to the heart of building a sustainable, clean, circular, decarbonised economy. To attain these goals, innovative forms of financing are required, especially in the capital markets.

Capital markets are one of the most powerful mechanisms for the provision of adequate and substantial funding. They also act as focal points, bringing together sovereigns, development organisations, donors, investors, issuers, corporates and financial institutions. From a cross-sectoral industry perspective, AmCham EU strongly supports the EU's plans to promote sustainable financing by supporting market initiatives like green bonds and looking for ways to encourage institutional investors to develop sustainable investment policies.

We welcome the Commission's High-Level Expert Group on sustainable finance and believe it is vital it works with other Directorates across the Commission to pool expertise and ensure different initiatives are mutually supportive and market enhancing. For example, exploring green securitisation and lending markets could contribute to financing the low-carbon economy. It will attain the goals of the Clean Energy for All Package as well as the UN's Sustainable Development Goals and Paris Climate Agreement objectives, in addition to deepening the Commission's proposal for a diverse, innovative, well-regulated and integrated Capital Markets Union (CMU).

Furthermore, we believe the EU's energy and CMU policies create a significant opportunity to:

- Focus new legislative initiatives on growth enabling opportunities e.g. Blended Finance, developing green and other thematic bond markets, and securitisation;
- Explore and promote risk-transfer solutions, including advancing the use of securitisation of existing assets to reduce risk, to find ways to better utilise, and do more with existing capital;
- Truly follow the principles of better regulation,
- Recognise the links between sustainable development and climate change and the economic/financial stability agenda.

Another important issue that EU energy, climate and financial policies can tackle together is infrastructure bottlenecks. Banks have played and will continue to play a significant role in the provision of infrastructure financing and development, which is essential to a cost-effective, low-carbon electricity market in Europe.

Conclusions and recommendations

The current package provides an integrated approach to EU energy policy and proposes some useful measures to adapt the market rules to accommodate new generation and consumption patterns. It restores some market signals and a level playing field for all energy sources, empowers consumers and new players such as aggregators or storage providers, and rewards flexibility which will be a driver of future power system operations.

AmCham EU supports a **market-driven energy policy** where mature technologies can compete on a level playing field. Therefore we call for:

- The end of support schemes for mature technologies;
- Non-discriminatory grid network charges be included in the legislation to allow a large-scale deployment of storage technologies,
- Scarcity pricing, which should help identify market mismatches.

AmCham EU calls for a **technology neutral and cost-efficient transition to a low-carbon economy**. Therefore we recommend that:

- EU and national policy-makers avoid policy overlap to ensure the transition occurs at the least possible cost for society;
- If required, capacity mechanisms be temporary, regional, and focused on safeguarding the security of supply at minimal cost to the consumer;
- Enhanced European coordination be fostered:
 - EU Member States must reinforce cross-country cooperation on energy policy, in particular for investment in new power generation facilities, interconnectors and funding rules, as well as the integration of renewables into the European Single Market;
 - ACER and ENTSO-E also have a vital role to play in strengthening regional cooperation.
- Enlargement of cross-border grid capacities and interconnectors is crucial to achieving the EU's energy and climate goals,
- EU electricity markets should reward flexibility and adequacy assessment should not only focus on generational capacity but also consider auxiliary grid services and availability of short-term flexibility to meet peak demand to ensure complete system integrity.

AmCham EU supports the focus on the **building sector** as one with a large untapped potential for energy efficiency and savings. Further ambition for energy efficient renovation of the existing building stock, both public and private, should be reflected in the package. The Energy Performance of Buildings Directive (EPBD) review should seize the opportunity to improve the efficiency of technical building systems. In this regard, AmCham EU agrees with the Commission's intention to encourage the use of smart ICT technologies, including building automation.

Also, AmCham EU actively calls for the **coherence of the entire package to be maintained and for long-term investment visibility to be enhanced**. Therefore:

- Proper implementation of existing (and upcoming) legislation is a prerequisite;
- The draft Governance Regulation will be instrumental in providing clarity for investment planning. An orderly and predictable implementation of 10-year national plans will help build trust and help companies make investment decisions which support the EU's climate and energy objectives;
- Key investment drivers may have been overlooked and should be addressed in the upcoming legislative debates:
 - Risk mitigation: markets should create the conditions for investors to limit the risks of a project, through for instance long-term contracts or PPAs,

- Price signals should come from the free flow of energy across the EU, rather than a fragmented collection of national price signals.