Connecting power markets to deliver security of supply, market integration and the large-scale uptake of renewables

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What is the ‘electricity interconnection target’?

The European Council of October 2014 called for all Member States to achieve interconnection of at least 10% of their installed electricity production capacity by 2020. This means that each Member State should have in place electricity cables that allow at least 10% of the electricity that is produced by their power plants to be transported across its borders to its neighbouring countries.

Why is it necessary that electricity grids of EU countries are connected with each other?

When power plant fails or during extreme weather conditions, Member States need to be able to rely on their neighbours for the importation of the electricity they need. Without infrastructure it is impossible to buy and sell electricity across borders. Therefore, connecting isolated electricity systems is essential for security of supply and help achieve a truly integrated EU-wide energy market which is a key enabler for the Energy Union.

Put simply with good connections between neighbours:
- electricity systems will be more reliable and there is a lower risk of black-outs
- we can save money by reducing the need to build new power stations
- consumers will have more choice putting downward pressure on household bills
- electricity grids can better manage increasing levels of renewables, particularly variable renewables like wind and solar.

More renewables also means more jobs – in 2012 the renewable energy and technology firms in the EU employed around 1.2 million people.

Will reaching the target make a difference on our energy bills?

Yes. Well-connected European energy grids will translate into direct savings for the consumer. According to a recent study EU consumers could, each year, save €12-40 billion if energy markets are fully integrated.

Why isn’t there a similar target for gas?

Gas is is imported via LNG or using large pipelines that often cross several borders before reaching final customers. Therefore a similar target for gas would not make sense. Instead, the EU has put in place specific rules for guaranteeing the security of gas supply based on managing the risk of disruptions to gas infrastructure. Member States will have to be able to cope with a situation when their biggest gas infrastructure element, for instance a pipeline, falls out of operation.

Which Member States are today not well connected with others?

Currently, 12 Member States are insufficiently connected with the EU electricity market. These are: Italy, Ireland, Romania, Portugal, Estonia, Latvia, Lithuania, the UK, Spain, Poland, Cyprus and Malta.

Will the 10% target be enough?

This target sets a required minimum interconnectivity level which should be achieved by all Member States by 2020. Depending on the geographical position of a country and its energy mix, for example the weight of renewables in it, achieving just the required 10% minimum may not be enough. The EU is therefore looking into raising the target to 15% by 2030. However, as in some Member States,
the 15% target might require investments which would not anymore be economically justifiable, it is important to assess the bottlenecks and the higher targets will be established on a case-by-case basis.

**How exactly will the target be reached?**

The main tool for reaching the target is through the list of infrastructure 'projects of common interest' (PCIs). The first list was adopted in 2013, containing 248 projects. 37 of these are electricity interconnection projects in Member States below the 10% target. All these projects benefit from accelerated licensing procedures, improved regulatory conditions, and some will have access to financial support. The PCIs will significantly contribute to achieving the target. In fact, when the foreseen projects will be completed, by 2020 all of the Member States (except for Spain and Cyprus) will achieve the 10% target.

The PCI list will be updated every two years in order to integrate new projects and remove those that have been completed.

**What do you do when a big part of an investment needs to be made by companies in one Member State while there are benefits across the border in another Member State?**

This issue has been addressed by the Regulation of Trans-European Energy Networks from 2013. The Regulation creates a possibility to allocate costs across borders based on the benefits they generate in the concerned Member State.

**How much money will be needed to reach the 10% interconnection target?**

The European Commission estimates that up to 2020 about €40 billion will be needed to reach the 10% target across the EU.

**Where will the money come from?**

First of all, most of the PCIs present a solid business case and can be financed under normal market conditions, mostly through the tariffs. Some projects, when they meet strict conditions and help enhance security of supply, can benefit from a grant from the Connecting Europe Facility (CEF). €5.35 billion has been earmarked for energy infrastructure projects in the CEF between 2014 and 2020. Whilst the CEF funding represents only around 3% of all the investment needed up to 2020 in electricity, but also in gas infrastructure, it can leverage other funds through using financial instruments, such as project bonds.

To have the expected impact the CEF grants have to be combined with the efforts of regulators and governments to finance projects through network tariffs and by making use of the new European Structural and Investment Funds (ESIF), where possible.

**Will this target be reflected in President Juncker’s investment initiative?**

Yes. The European Structural and Investment Funds (ESIF) are the main instruments of the Commission's Growth, Jobs and Investment package. Energy infrastructure is one of the priorities of the ESIF. The Funds could cover PCIs or other interconnection projects, therefore accelerating and complementing the current structure of support for PCIs and beyond. The ESIF will mobilise at least €315 billion in private and public investment across the EU.

**One of the main obstacles to building new infrastructure is lengthy permit granting procedures. Is there a solution?**

Indeed, today, on average obtaining the necessary permits can take between 10 and 13 years. The TEN-E Regulation introduces a binding overall time limit of 3.5 years for permit granting. It foresees that a single national competent authority has to act as a one-stop-shop for all permit granting procedures. Such one-stop-shops should be in place in all Member States by spring 2015.

**How will the EU guarantee that the new electricity grids will not endanger the environment or the health of EU citizens?**

Already today, the EU has the most stringent environmental protection laws in place. In addition, the...
TEN-E Regulation sets new rules on enhanced consultation and transparency to ensure better involvement of citizens in the planning process. The objective is to make the process more efficient while safeguarding the EU’s high standards in environmental protection.

What are the next steps for the Commission?

The Commission will intensify its support for the critical projects through several targeted measures. It will assess each project to identify and help address any obstacles and risks that might delay construction. It will help bring together the infrastructure project promoters in order to help tackle any technical, planning, design and implementation issues and facilitate their contacts with the European Investment Bank and other banks.

The Commission will follow up the implementation by the Member States of all relevant EU laws, notably the TEN-E Regulation. It will work closely with the Agency for the Cooperation of Energy Regulators and with Member States to ensure that the implementation of the projects takes place on time. Regional fora are an important tool to ensure better cooperation of Member States also in the context of infrastructure building.

The Commission will report annually to the European Council on the implementation of PCIs and on progress in reaching the 10% target.

Still in 2015 the Commission will convene the first Infrastructure Forum to discuss and find solutions to issues that are common to all regions across Europe.

More information on EU energy markets