

Brussels, 16 March 2016

FOLLOW UP COMMENTS TO THE MEETING OF TEN-E REGIONAL AND THEMATIC GROUPS FOR ELECTRICITY, GAS, OIL AND SMART GRIDS

Orgalime, the European Engineering Industries Association thanks the Commission for having invited European technology manufacturers as a stakeholder to the meeting of TEN-E Regional and Thematic Groups for electricity, gas, oil and smart grids, which took place on 4 February 2016 in Brussels.

We herewith provide our comments regarding our experiences with the implementation of Regulation (2013)/347 on Guidelines for Trans-European Energy Infrastructure (TEN-E) with respect to the Projects of Common Interest (PCIs) on the second Union list, and our suggestions for improvements. These comments refer to three particular questions raised among others to stakeholders during the meeting (see pages 2-4, entries 1-3).

In general:

- Orgalime supports the objective of the TEN-E Regulation to address infrastructure needs in respect of the overall goals of competitiveness of European industries, security of supply and sustainability.
- We second the Commission's view that infrastructure is the backbone of the European Energy Union but emphasise that electricity infrastructures in both, **transmission and distribution** are needed for a successful implementation of the Energy Union, EU 2030 Energy and Climate Framework and the Paris Agreement.
The modernisation of Europe's energy infrastructure, in particular the electricity networks **at all voltage levels**, is a prerequisite to deliver the EU's 2020 and 2030 energy and climate targets. It is especially in the area of low and medium voltage distribution grids where most of the benefits of smart grids will arise for consumers. However, the TEN-E Regulation falls short in tapping into this today: **only three smart grids PCIs are on the second Union PCI list**. There is therefore a clear need for improvement on this in the light of the Energy Union and New Deal for Consumers, both of which we fully support.
- Orgalime welcomes that the Commission announcement that it will give more attention to stakeholders' opinions for the establishment of the third Union list of Projects of Common Interest (PCIs) in 2017. Including technology suppliers directly in the debate would, in our view, be beneficial for the identification of **more innovative projects of common interest** in the spirit of the TEN-E Regulation, which in our view represents a second area for improvement.
- Regarding PCIs on the second Union list, indeed further improving the permit granting process and increasing public acceptance remain priority areas for speeding up its implementation.

Orgalime, the European Engineering Industries Association, speaks for 42 trade federations representing the mechanical, electrical, electronic, metalworking & metal articles industries of 24 European countries. The industry employs some 10.3 million people in the EU and in 2014 accounted for more than €1,800 billion of annual output. The industry accounts for over a quarter of manufacturing output and a third of the manufactured exports of the European Union.

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1. Part: How to speed up the implementation of the PCIs on the 2nd Union list?

Our industries are concerned with the slow progress made in implementing the TEN-E Regulation, and consequently in implementing the PCI list across Member States. Indeed further improving the permit granting process and increasing public acceptance remain priority areas for speeding up implementation.

Investment signals and appropriate incentives, with sufficient focus on innovative common projects of interest at all voltage levels, and clarity about Europe's new electricity market design would, in our view, help to further increase investors' confidence.

The existing TEN-E projects should be implemented as quickly as possible, while keeping the administrative burden for project promoters to a minimum.¹ Member States and National Regulatory Authorities should commit themselves to the principles of the Energy Union, to do their job quickly and should intensify their support for *innovative Projects of Common Interest*.

Orgalime is generally pleased to learn that the Commission is committed to take its role as the Guardian of the Treaty seriously, and hopes that it will make full use of the available procedures to ensure timely and full compliance to the TEN-E Regulation in all Member States.

We thus ask the Commission to act with determination if the national regulatory framework in a Member State should not be compliant.

We believe that making the study that was presented during the meeting by Milieu publicly available, including all its country related findings, would increase transparency and help towards achieving a more determined follow up of EU regulation. We therefore encourage the Commission to indeed publish this study. Orgalime also welcomes the VVA Consulting study that has been recently launched and looks forward to learning about its results later this year.

2. Part: How to design the process in view of the 3rd PCI list to be adopted in 2017?

- *More focus on innovative projects of common interest - more dialogue at EU and national level with European technology manufacturers about technological capabilities*

The PCIs in the electricity transmission system should be seen as opportunities to help in upgrading the European electricity system as a whole and making it fitter to meet the challenges ahead. We recommend that PCIs should lead to a greater uptake of innovative technologies since European key enabling technology for the modernisation of the European energy infrastructure is available.

We recall that, according to the TEN-E Regulation, and articles 4.2(a) and (c) in particular, projects must be selected according to their positive impacts and externalities, regarding the effective integration of the internal energy market, security of supply also through interoperability and sustainability through integration of renewables and distributed generation into the grid and the integration and involvement of network users. These "positive impacts and externalities" should in our view be understood in an inclusive manner, namely for grid operators and users at all voltage levels.

Articles 14.2(a) and (b) of the TEN-E Regulation list "innovation" as one of the key criteria for the later financing of the projects. For this purpose, Orgalime advises that all available technologies should be taken into account by project promoters, and that innovative, more efficient alternatives, which are already available and fully compatible, are being considered by Member States when identifying PCI candidates and granting regulatory incentives.

¹ Regulation (2013) 347 Recital 25

We would be pleased to see that all available technologies, including cost efficient smart solutions, are equally examined by project promoters before the selection for a project is made.

Also, the Regional or Thematic Group as well as the National Regulatory Authorities (NRA) should acknowledge this when evaluating the projects. NRA must respond to risks that occur for project promoters when they are deciding to use innovative technologies in their project. The NRA should consider appropriately these eligible risks involved when deciding on incentives, including risks related to new transmission technologies, both offshore and onshore (see article 13.2 of the TEN-E Regulation). Orgalime advises that one should not solely look at cost-efficiency but also on long term socio-economic benefits when assessing the project's risks and deciding on incentives.

A regular exchange on best available technologies with European technology suppliers would in our view also help to avoid different regulatory approaches by Member States to certain technologies in a cross-border project, as has occurred, for example, in the case of underground cabling.

- *More focus on smart distribution grid projects of common interest*

Orgalime underlines that the reinforcement of the electricity distribution network and investments in advanced solutions is a prerequisite and of equal importance to the upgrade of the transmission grid. A well-interconnected Europe will not be enough to integrate the increasing distributed energy resources that will arise primarily at local level. More 'intelligent' cross-border projects that would connect energy distribution systems between two countries are strongly needed in the light of the Energy Union's objectives of more security of supply in Europe and more independence from energy imports. Smart Grids PCIs can serve as a benchmark for all Smart Grids projects across Europe.

Yet, we have noted with regret that there are only three projects identified as corresponding to Smart Grids in the Union list of 2015. Out of the three projects, two had been already included in the first Union list of 2013. Our industries are seriously concerned with the lack of Smart Grids projects in the list.

The Commission may consider studying the reasons why so few Smart Grids projects are being selected or promoted. In our view, the threshold of 10kV of Annex IV.1(e) of the TEN-E (in combination with Article 4.1.c(iii) and Annex II.1.(e)) is one reason why the TEN-E is not the best mechanism to support smart grids projects across Europe today.

Orgalime strongly advises to the Commission to take into account the Eriksson Report of the European Parliament on "Achieving the 10% electricity interconnection target – Making Europe's electricity grid fit for 2020" (2015/21085(INI)). We call on decision makers to take a holistic approach and stress that it is of equal importance to trigger investments in the low and medium voltage grid, to prepare and render it fit for the quantity of electricity that will be transmitted through increased interconnections between Member States and increasingly decentralised production. Distribution grids need to be made fit to absorb the innovation brought to the transmission level if the Energy Union and its New Deal for Consumers is to deliver.

Orgalime represents technology suppliers across the value chain, the industry that supplies conventional and new technologies throughout the entire energy value chain, from generation, transmission, distribution to end use.

As such, we believe that the future energy market design requires a holistic approach, which includes all levels of the energy value chain starting with giving special attention to demand efficiency and all sources of flexibility to close the current regulatory and innovation gap at distribution level.

3. Which concrete modifications could be introduced to the PCI assessment and selection process? (raised as sub-question under Part 2)

We propose that the Commission assesses in particular why there are so few Smart Grids projects being selected and promoted as PCIs and publishes the outcome of such a survey as part of the evaluation report to come following article 17 of the TEN-E Regulation.

The Commission should invite stakeholders, including technology providers, and Smart Grids project promoters to discuss how to scale up the number of Smart Grids projects in the Union list of 2017. For example, there could be a dedicated session at the next meeting of the TEN-E Regional and Thematic Groups for electricity, gas, oil and smart grids in application of Annex III.5 of the TEN-E Regulation. From a political perspective, the relevance of more smart grids projects to meet Europe's regional and international energy and climate commitments should be raised at the Energy Infrastructure Forum meeting in 2016.

We suggest to regularly invite European technology providers as experts of the European engineering industry to the Thematic Groups and Regional Groups to provide up to date information about technological capabilities and innovation trends to decision makers and project promoters under the TEN-E Regulation. This would support the identification and assessment of project proposals and ensure the identification and selection process of PCIs is based on informed decisions about the technological innovation capabilities. In our view, Annex III.5 of the TEN-E Regulation should be used for that purpose. For example project promoters, national and EU decision makers and technology suppliers should be convened to exchange on best available technologies. Should the TEN-E Regulation be revised, "technology manufacturers" should be explicitly mentioned in annex III.5 of the TEN-E Regulation.

We suggest that the Commission studies in how far "innovation" was considered by the selected projects and displays what innovation is used in the projects. This should equally from part of the Commission evaluation report and possible amendment proposals following Article 17 of the TEN-E Regulation.

Decision makers should take a holistic and technology neutral approach when selecting Europe's energy infrastructure projects. "Technology neutrality" means that all available technologies are considered for the projects in order to accomplish on the modernisation of Europe's electricity infrastructure at all voltage levels. Member States and NRA should also carefully analysed if their existing regulatory frameworks adequately address the projects and promoters' risks, including risks to new innovative transmission technologies and smart grids in order to make proper use of Article 13.2 of the TEN-E Regulation.

The publication of the studies that were presented during the meeting, would in our view be beneficial and allow all stakeholders to learn about the state of play in Member States.

Beyond the focus of this meeting, we propose to remove the existing barrier of the in our view inappropriate 10 kV criterion of Annex IV.1(e) the TEN-E Regulation for smart grids PCIs in combination with its Article 4.1.c(iii) and Annex II.1.e.

In conclusion, Orgalime is committed as overall representative of technology providers to all the energy chain, to be fully involved in the discussion on how to design the process in view of the 3rd PCI list to be adopted in 2017 and how to operationalise the existing and new EU electricity interconnection targets of 10% by 2020 and 15% by 2030.

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