



Department  
of Energy &  
Climate Change

Baroness Scott of Needham Market  
EU Energy and Environment Sub-  
Committee  
House of Lords  
London  
SW1A 0PW

Andrea Leadsom MP  
Minister of State

Department of Energy & Climate  
Change  
3 Whitehall Place,  
London  
SW1A 2AW

[www.gov.uk](http://www.gov.uk)

25 February 2016

Dear Ros,

Please find attached the Government's response to your inquiry into Energy Governance published on 18 December 2015.

Best wishes

**ANDREA LEADSOM**

## RESPONSE TO HoL REPORT ON ENERGY UNION GOVERNANCE

### Department of Energy and Climate Change – A response to the House of Lords European Union Committee's 6<sup>th</sup> Report of Session 2015-16 – 'EU energy governance'

A) Intelligently designed capacity markets have the potential to improve the security of supply and to reduce relative energy costs for consumers in the long term. In order to do this:

- a common framework at the EU level should be developed to assess the need for, and means of achieving, common adequacy standards that secure the availability of supply without escalating prices;
- the Commission and Member States should place more emphasis on regional co-ordination to moderate over-investment in new reserve capacity, while ensuring that there is adequate capacity for the safe operation of the system as a whole;
- technologies and balancing mechanisms, such as energy storage and demand side measures, should be given equal access to domestic capacity markets; and
- national capacity markets should be open to cross border mechanisms such as interconnectors and non-domestic generation.

We welcome proposals that seek to achieve a greater co-ordination and harmonisation of EU capacity markets. Such proposals should aim to mitigate the distortion of competition between capacity providers and the distortion of cross-border trade to ensure adequacy of supply.

**Capacity Mechanisms have a role to play in many Member States, and thus EU energy policy. The UK Government considers the setting of capacity adequacy standards a political decision which needs to take into account the individual circumstances in a Member State and is not appropriate or desirable to be harmonised at European level. Irrespective of whether it is the Member States' choice to decide capacity adequacy standards, until there is a fully functioning internal market, it is practically impossible to have EU-wide standards, because of security of supply issues. Further to that, we are supportive of common methodologies for measuring generation adequacy but believe that, on top of these common methodologies, Member States should continue to conduct their own assessments of security of supply. They should also be allowed to take action, in line with EU guidelines, on the back of these assessments should that be necessary.**

**The UK Government recognises the potential value of demand side response (DSR) and energy storage in helping to make our energy system more flexible and resilient. As such, both DSR and storage are eligible to participate in the Capacity Market.**

**The principle of participation of interconnected capacity in capacity mechanisms is important and has been a major focus in the UK in recent years. Interconnectors participated directly in the recent capacity auctions for the delivery year 2019/20. They received the clearing price in the auction and will hold the capacity obligation in line with requirements for all other resources. We previously considered various other options to allow participation of foreign generation in the Capacity Market and consulted widely with stakeholders. However, a workable solution to incorporate non-GB capacity proved elusive. We support the principle and continue to consider ideas for development.**

- B) We welcome the introduction of National Energy and Climate Plans, which will help to streamline and add clarity to reporting requirements. The Plans will help to present an overall picture of progress at a pan-EU level against the five dimensions of the Energy Union: energy security; the completion of the internal energy market; energy efficiency; emissions reduction; and research and innovation.

We also welcome the proposal for Member States to provide integrated projections to the Commission covering both reference and policy scenarios, which will give an early indication of progress against EU level targets.

The UK Government should be transparent, timely and comprehensive in reporting on its own progress against each of the dimensions of the Energy Union as well as against its own additional domestic targets, such as those required by the Climate Change Act 2008, Fuel Poverty Objectives and the creation of a more competitive retail energy market.

We agree that there should be an overall assessment mechanism for the 28 National Energy and Climate Plans in order to ensure consistency, but we are not persuaded by the arguments for a new institution or monitoring body. Such assessment should be open and transparent and should be undertaken by the Commission itself, or by an existing body such as the European Environment Agency.

**The UK Government is committed to continue being transparent, timely and comprehensive in reporting our progress in relation to all targets. It is important that someone has an overview of EU climate and energy policies as a whole, and we agree that this could and likely should be a role undertaken by the Commission or an existing body as the creation**

**of a new institution appears unnecessary with the level of existing expertise.**

- C) It is clear that legislative proposals in the area of governance would be met with mixed reactions. While unnecessary legislative proposals are to be discouraged, the Commission should not be deterred from proposing measures seeking to guarantee commitments that have already been made, such as the 2030 renewables target.

The EU-wide binding renewables target of at least 27% by 2030 has been agreed with the intention of increasing the diversity of supply and reducing the EU's dependency on imported and domestic fossil fuels. But without an effective, transparent, accountable, and legitimate governance mechanism, the significance of the target is considerably diminished, the incentive to Member States to be ambitious is weakened, and any prospect of achieving the overall objective is jeopardised.

**We agree that legislation may be needed to enable streamlining of reporting requirements. It will be important that extra constraints are not imposed on Member States and maximum flexibility should be ensured to make best use of cooperation between Member States and achieve objectives in the most cost-effective way.**

- D) Like all investors, those who invest in energy need clear medium and long term policy signals. The European Council should, with the Commission, present a much clearer timetable for the establishment of the energy governance framework.

Rapid and unexpected changes in policies, even if they are designed to encourage investment, create policy uncertainty and may undermine investor confidence.

The UK Government should be clear about its own renewable energy strategy and target for 2030 as part of its decarbonisation and energy security objectives. This will help create investor confidence and protect jobs at a time of uncertainty.

The European Council should not only reiterate the binding targets agreed in October 2014, but should also call on the Commission to propose monitoring and enforcement mechanisms that act as a guarantor for the agreement and ensure that Member States share the effort equitably. Maintaining the integrity of the agreement is essential for securing investor confidence.

**We support the need for detailed, transparent and credible long term National Energy and Climate Plans that help to increase predictability for investors, and increase robustness, consistency and coherence of Member States' strategies and measures for meeting their targets.**

**In November the Secretary of State announced plans for 3 renewables support auctions for this Parliament to bring forward additional offshore wind generation, subject to industry cost controls. This forms part of proposals for an additional 10GW of offshore wind in the 2020s. Industry is already responding to these clear signals, with Dong energy announcing a £6bn offshore wind investment over the next 5 years.**

- E) Consumer interests should not be segregated in energy policy, and the interests of industrial, business and domestic consumers should be considered in energy governance framework discussions. The UK Government should consult stakeholders and consumers during the development of the UK's National Energy and Climate Plan.

The UK Government should go to greater lengths to explain to consumers the financial and security benefits of a more integrated EU energy market.

**The UK Government is already prioritising the involvement of stakeholders. We will continue to involve the breadth of stakeholders in this process and give consideration as to how to communicate the importance and benefits of a more integrated EU energy market to consumers.**

- F) The recent publication of the State of the Energy Union report, the Commission's guidance on the preparation of Member State National Energy and Climate Plans, and the individual Member State fact sheets, are all positive developments. It is encouraging to see the Commission taking a broad look at EU-wide progress against agreed targets and measuring progress against each of the Energy Union dimensions.

We call on the UK Government and other Member States to meet the Commission's deadline for the preparation of the first National Energy and Climate Plans by 2018.

Regional co-operation should be far more prominent in governance discussions. The benefits of communicating and co-operating are clear, and the Commission should require Member States to demonstrate that this has taken place in the preparation of their National Energy and Climate Plans.

The Commission should ensure that proposals for a future energy governance framework include legal clarity, a respect for Member State sovereignty, a

focus on security of supply, commitment to the consumer, real ambition for decarbonisation and increased regional co-operation.

The Commission and Member States should work together on a governance framework that recognises the different timescales that are involved and ensures policy coherence between short and long term targets and objectives.

**The UK Government is committed to meeting the Commission's deadline for the first National Energy and Climate Plans and work is already underway to do so.**

**We agree that regional co-operation is extremely important and should continue to feature in governance discussions. We are keen and happy to demonstrate that consideration has been given to regional co-operation within our own plans.**

**We also agree that proposals should be clear and ambitious while recognising differing timescales of those involved and coherence between the varieties of targets to be met. We will continue to work closely with other Member States and the Commission to deliver such a high quality governance framework.**