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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	Interconnections: Status update and their treatment in the Clean Energy Package - Exchange of views

At the request of the Spanish and Portuguese delegations, Ministers are invited to hold an exchange of views on the above topic. As a background to the exchange of views, Annex I contains the note with the request of the Spanish and Portuguese delegations.

For ease of reference, the text of the October 2014 European Council conclusions¹, on the topic of "Achieving a fully functioning and connected internal energy market" is reproduced in Annex II.

¹ *cf.* doc. EUCO 169/14 + COR 5

INTERCONNECTIONS:**STATUS UPDATE AND THEIR TREATMENT IN THE CLEAN ENERGY PACKAGE**

The Energy Union should be the basis of the energy transition in the EU. It offers substantial opportunities for an ambitious and cost efficient energy transition that should be fully exploited in order to make the most of this process. An essential part of the Energy Union is the existence of an interconnected European energy grid that enables physical energy exchanges between Member States.

Electricity and gas interconnectors are a strategic element to build the internal energy market at a European level, as they are crucial to increase security of supply and to boost a more efficient functioning of energy systems. Interconnections enable more competitiveness and stability in energy markets, as they contribute to the convergence of energy prices for consumers, to avoid investments in duplicate facilities and to reduce the costs associated to system back up and network reinforcement.

Interconnections play a key role to achieve the climate and energy goals at EU level. In particular, the integration of rising levels of intermittent renewable energy sources (RES) requires a more interconnected internal electricity market and appropriate back up, with the aim to maintain the costs of RES integration at an adequate level.

The Commission has stated that “higher interconnections are also essential to meet the EU ambition to be world leader in renewable energy, which is not only a matter of a responsible climate change policy but also an industrial policy imperative.”² . The European Council conclusions of October 2014 also established a clear link between renewables targets and interconnections: “The integration of rising levels of intermittent renewable energy requires a more interconnected internal energy market and appropriate back up, which should be coordinated as necessary at regional level.” Moreover, the European Council called for "speedy implementation of all the measures to meet the target of achieving interconnection of at least 10 % of their installed electricity production capacity for all Member States."³ by 2020 and set a 15% interconnection target for 2030.

Nonetheless, there are missing interconnection links between several countries. Some countries are still far below the 10% interconnection target and will not be able to reach it by 2020, nor by 2025.

In this context, the Clean Energy for All Europeans legislative proposals presented by the European Commission in November 2016, that establish the new framework for the achievement of the ambitious EU energy and climate targets for 2030, make it imperative to have an adequate level of interconnection with other countries within the Union.

However, in order to be in a position for the adoption of this ambitious approach that would let the EU to continue to take the lead of the energy transition, Member States shall be provided with the adequate instruments that allow maximizing the potential of clean energies. And interconnections are, undoubtedly, the most important tool for those Member States that are energy islands.

² Communication from the Commission to the European Parliament and the Council “Achieving the 10% electricity interconnection target” Brussels, 25.2.2015 http://eur-lex.europa.eu/resource.html?uri=cellar:a5bfdc21-bdd7-11e4-bbe1-01aa75ed71a1.0003.01/DOC_1&format=PDF

³ Note from GSC: cf. European Council conclusions March 2014, EUCO 7/1/14 REV 1, point 19: "[...] *The European Council calls for speeding up efforts in particular as regards: - speedy implementation of all the measures to meet the target of achieving interconnection of at least 10 % of their installed electricity production capacity for all Member States.*[...]"

It is for these reasons that we must work together so that the legislative proposals currently under discussion include effective measures to increase the level of interconnection with other EU countries. In particular, the proposals should include a binding target of 10% electricity interconnection and provide with an effective governance framework that enables the achievement of this target, increasing the European funding for these projects.

The TTE Energy Council next 26 June is the appropriate time to have a specific discussion on this topic, which is of the utmost importance. The debate should not be further delayed, in particular bearing in mind the state of play of the proposals and the timeframe envisaged for their examination.

As a consequence, Portugal and Spain call for the inclusion of this item as a specific Agenda point for the TTE meeting of 26 June, with the aim to promote a specific debate on the state of play of interconnections and their role in energy transition. In particular, we call for a discussion on whether the proposals on the Clean Energy Package should put forward the above mentioned measures (binding 10% interconnection objective, specific EU funding and strong Governance system) that we consider necessary to increase the level of interconnections across the EU to adequate levels.

From European Council conclusions of 23/24 October 2014 (doc. EUCO 169/14 + COR 5)

"Achieving a fully functioning and connected internal energy market"

4. The European Council noted the fundamental importance of a fully functioning and connected internal energy market. Recalling the March 2014 conclusions on its completion, the European Council stressed that all efforts must be mobilised to achieve this objective as a matter of urgency. Preventing inadequate interconnections of Member States with the European gas and electricity networks and ensuring synchronous operation of Member States within the European Continental Networks as foreseen in the European Energy Security Strategy will also remain a priority after 2020. In that context it decided that:
- the European Commission supported by the Member States will take urgent measures in order to ensure the achievement of a minimum target of 10% of electricity interconnections, as a matter of urgency, and no later than 2020 at least for Member States which have not yet attained a minimum level of integration in the internal energy market, which are the Baltic States, Portugal and Spain, and for Member States which constitute their main point of access to the internal energy market. The Commission will monitor progress and will report to the European Council on all possible sources of financing including on the possibilities of EU financing in order to ensure that the 10% target will be met. In this light, the European Council invites the Commission to make proposals, including on finance, within the limits of the relevant instruments of the MFF, if appropriate. Recalling the conclusions of the March and June European Councils, which stressed the need to ensure the full participation of all Member States in the internal energy market, the Commission will also report regularly to the European Council with the objective of arriving at a 15% target by 2030, as proposed by the Commission. Both targets will be attained via the implementation of PCIs;

- Member States and the Commission will facilitate the implementation of projects of common interest including those identified in the European Energy Security Strategy which link in particular the Baltic States, Spain and Portugal, to the rest of the internal energy market, ensure that they have the highest priority and will be completed by 2020. Special attention will be paid to the more remote and/or less well connected parts of the single market such as Malta, Cyprus and Greece. In this context, the European Council welcomes, as a first step, the recent transmission system operators' common strategy for the development of interconnections for the Iberian Peninsula with the internal electricity market, including concrete projects in order to increase the capacity. The European Council calls for the implementation of the strategy and encourages the transmission system operators and regulatory authorities to include the relevant projects in the upcoming 10-year network development plans;
- where the implementation of these projects will not suffice to reach the 10% target, new projects will be identified, added as a matter of priority in the upcoming review of the list of projects of common interest and swiftly implemented. EU co-financing should be made available for these projects. The Commission is invited to present a communication ahead of the March 2015 European Council on the best courses of action to effectively achieve the target mentioned above."