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Follow up to the Action Plan on Grids

PART 1: Information from the Presidency

The Hungarian Presidency continued the work of the trio in order to make further progress on the energy transition and on the creation of a sustainable and integrated energy system. Our priority was to guarantee continuous and affordable energy supply for households and for European enterprises.

Under the Belgian Presidency the Council adopted conclusions on *"Advancing Sustainable Electricity Grid Infrastructure"*[1] where it called for the implementation of the EU Action Plan for Grids without delay in close cooperation with all relevant actors. The Council also highlighted the fact that a fully integrated and interconnected European power system can only be achieved if the EU's electricity grid infrastructure is deployed and used as effectively and efficiently as possible, including through flexibility and other non-wire solutions, so that the overall system costs borne by households and companies are mitigated as much as possible.

[1] https://data.consilium.europa.eu/doc/document/ST-10459-2024-INIT/en/pdf

To follow up, the Hungarian Presidency **invited energy ministers to an informal meeting where delegations discussed how the EU could achieve a sustainable, flexible and affordable electricity system**. They shared their views on possible measures to optimise and deliver the investments necessary for the future grids while keeping the costs minimal as the costs are reflected in the tariffs, and eventually in the final energy price for consumers.

In general, the ministers agreed that an interconnected electricity network is the backbone of a well-functioning energy market and has a crucial role in the energy transition. It is important to ensure the security of the system and to drive the decarbonisation in the most cost-effective way.

The discussion also revealed that huge investments are needed to ensure the necessary interconnections and to ramp up the transmission and distribution network in order to be fit for new requirements. Increasing energy demand - driven by the electrification of transport, heating, and industrial processes - places additional pressure on the grid and requires a more efficient and smart use of the network. Distribution grids have to be adapted to connect large amounts of decentralised renewable generation to the grid, they need to become smart, digital and cyber-resilient. Significant investments are required to expand and strengthen distribution systems while maintaining security and affordability for consumers.

As a second step, the Presidency organised a **high-level Electricity Grid Development Conference on 14 October in Budapest,** where the discussion continued with the regulators, stakeholders (ACER, ERRA, IEA, ENTSO-E, EU DSO Entity, EURELECRTIC) and other high-level industry representatives around the most important aspects of grid development, such as the architecture of future grids, the role of regulation and market design, as well challenges in the implementation of network developments.

There was a common understanding among the high-level speakers and panellists that **grid investments need to be doubled**: there is a need to refurbish the aging existing grid infrastructure, to strengthen and expand the grid to keep up with the increasing electricity demand and the increasing need of connection and finally, to invest in smart solutions and digitalisation. It means that approximately €67 billion investment is needed per year from now until 2050.

Several speakers pointed out that **grid development should be accelerated in order to keep pace with the energy transition**. The bulk of the investments should go to distribution grid development, as the distribution network needs to be decentralised and modernised through flexibility and digitalisation, with the uptake of innovative technologies. Smart and flexible grids will be crucial to integrate more renewable energy in the system while maintaining stability and security. On the one hand, there is time pressure to accelerate investments, but on the other hand **there is also a pressure** from the public on decision makers and suppliers **to keep energy prices affordable.** In order to meet this dual goal, all the relevant parties have to work together to reduce the costs and increase efficiency as much as possible.

There was a big emphasis on the **flexibility** needs: the participants agreed that the roll out of market-based flexibility solutions will be crucial in order to keep the system efficient. The swift transposition of the recently adopted electricity market design framework will be of outmost importance to define and plan the flexibility needs.

Regulators and operators stressed that **grid congestion** could be the biggest hindrance in the implementation of the energy transition. While infrastructure development takes several years, in the short term the existing grid could be used more efficiently, also considering non-wire options, by providing more transparency about available capacities and by aligning better renewable production areas with transmission grid planning. The efficiency first principle and greater grid transparency is a no-regret option.

The European Transmission and Distributions Network Operators, as well as the European regulators expressed their commitment to cooperate and make all the necessary efforts to achieve the very ambitious EU objectives. However, they drew the attention to the **main short- and long-term challenges** they face in building a carbon neutral energy system in Europe. They mentioned the issue of long- term planning, the lack of regulatory incentives, the need to define the principles for forward-looking anticipatory investments and cost allocation. Furthermore, they reiterated that access to financing, especially for distribution system operators is very difficult.

Regardless of the numerous challenges, there was a common understanding that a rapid and **collective effort** and **strengthened cooperation** by all actors, at all levels, starting with the efficient implementation of the EU Grid Action Plan could make the grids fit for the 55% objective. The stakeholders expressed their commitment to work on different solutions to deliver the necessary investments in a cost-efficient way. Easier access to cheaper capital, the recognition of anticipatory investments by the regulator, digitalisation, the roll-out of innovative technical solutions, standardisation of the products in the supply chain, the promotion of self-consumption and demand side flexibility can also bring down the overall cost.

The **conference provided an important milestone** on the path to proceed with grid development, mainly because the relevant parties managed to identify the tasks and challenges ahead and they all showed readiness to work together without delay on common solutions.

As a last step under the Hungarian Presidency, the European Commission will inform ministers about the state of play of the Grid Action Plan.

We hope that the new Commission will take into consideration the policy discussions and guidance given by ministers during this semester in its future work when shaping the Clean Industrial Deal and a new legal framework for European Grids.