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The Challenge of Energy Regional Cooperation within Europe: Spain, Portugal and France

A summary of the points raised during the debates

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This document is a summary of the main debates of the Seminar organized by the Energy Chair of Orkestra and Notre Europe- Jacques Delors Institute
4th July - Bilbao – Spain
Euskalduna Conference Centre and Concert Hall.

For more information about the Spanish Energy Policy the Energy Chair has published the report "Energy policy: European challenges, Spanish answers" that can be downloaded in
http://goo.gl/dO5igc

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1. SEMINAR SUMMARY

The seminar that took place in July focused on energy regional cooperation. In this regard it was organized in three panels. The first one offered an overview of the State of art of national energy policies in transition in Spain, Portugal and France. Speakers introduced the principal characteristics of the energy policy in the Iberian Peninsula, Portugal and Spain, as well as in France, and how they address the energy transition. It also looked at how these national energy systems are impacted by EU energy policy.

In the following panel about the potential interaction between the three countries through Regional Cooperation as a key channel for improving the current European Energy Policy framework, presenters addressed the issue of regional cooperation as an instrument to improve the present framework of the European energy policy. It identified current obstacles to further cooperation in the energy field among the countries involved, with a specific focus on the issues related to the physical infrastructures needed to achieve an adequate interconnection and to secure energy supplies.

The last panel dealt with the future governance of European energy policy post 2020 including the finalization of the EU internal energy market by 2014/15 as well as the post 20/20/20 EU energy policy framework by 2030.

2. NATIONAL ENERGY POLICIES

- Liberalization vs. regulation. Liberalization problem is that it was designed when most electricity power was non renewable. Therefore it was a carbon based capacity system and at present it is a low carbon system. This situation has changed and there is a trend to develop a renewable electricity system.

There is a real need for planning. If there is no planning everything will go wrong. Perhaps there should be an indicative planning that would be more appropriated. Planning should anticipate market trends. Being proactive is cheaper than being reactive.

- In 2007, when the European Union developed the 20/20/20 package on energy and climate, the main driver was the fight against climate change.

In that moment people worried about the possibility of a lack of energy. It was a moment of important economic development and the question was what to do if there was not enough energy to cover an increasing demand. Oil prices grew to unknown levels, etc.

However six years later the situation has changed and electricity and gas demand have turned down. Renewable technologies have been developed with an enormous cost that cannot be affordable. And no one anticipated this new situation.

Perhaps it is time to change and assign a new weight to each of the criterion that was employed in 2007, when energy climate package was developed at the European level.

- There are many and new decisions to be taken at national level and with a huge cost. The power capacity that must be chosen should be the best one. In this respect, European Nordic countries with Nord Pool are the most advanced, and they are the ones that should be followed.

Finally, systems interconnection is another important question to take into account. There are different countries with different interconnection capacities. Sources must be optimized and teamwork must be emphasized. There is a need for new planning and a new future must be reinvented.

- Since first January 2013, Spanish electricity generators have a 7% tax on their production. Therefore this tax has consequences on inter countries exchanges. At present electricity flows tend to go from Portugal to Spain. There has been a negative market splitting for Portugal this year.

Capacity generation is disappearing since the Troika entered in Portugal. There is a need for revenues. Capacity mechanisms must generate revenues that can guarantee the development of new power capacity

Therefore there is a general need for new capacity. At present this trend is towards developing facilities that pollute less, building renewable energy capacity. In this regard, it seems that if the trend is to go to a capacity market, natural gas facilities are the most appropriate to shut down and reopen.

3. REGIONAL COOPERATION: A KEY CHANNEL FOR IMPROVING THE CURRENT EUROPEAN ENERGY POLICY FRAMEWORK

- There is a distinction at European level in the top-down and bottom-up approaches. How can it be found a balance and go from coordination to cooperation?

- Spain should promote interconnections with France and Europe. However France doesn´t need them because it has enough interconnection capacity with other European countries. As a consequence, how can Spain finance it without French help? It is impossible.

- It is essential to know the responsibility of each part. Politicians should play their role. They want a liberalized market and they must do everything to achieve this objective. Spain is making progress and overcoming its problems, however there is more and more regulation that anyone expected in the past.

In this respect regulators responsibility is clearer than that of politicians. However how could it be done to get them more involved? Some people say that capacity mechanisms could be the best solution. There are other initiatives as the Madrid Forum that could be employed to achieve these objectives.

The European Union must act as a catalyst, nevertheless more cooperation is needed. No cooperation has important costs.

- How to consider the market in relation to electricity? Is Spain an island in the electricity field?

The electricity system was developed by electricity companies that built generation facilities and the grids. Facilities are in general far from consumer points. For instance, in the Autonomous Community of Madrid there are any generation facilities and consumers employ electricity coming from other regions.

At present there are more or less 20,000 wind MW, whose electricity must be transported where demand is. However there is a general opinion that if the entire grid was designed once again, most of it would be in the same place.

In 1992 if someone talked about third party access to the grid, etc. people thought that it was going impossible to develop those concepts in Spain, however time passed and monopoly came to an end, there was a process of unbundling energy companies, rules about third parties access to the grid were developed, etc.

Meanwhile north Europe electricity prices are fewer than those from the south. At the same time those countries are well interconnected. Could it be because the Spanish and other European countries liberalization processes haven´t been real liberalization processes?

There is a trend to talk about interconnections and their need to be of good quality. So interconnections must be developed until there would be enough capacity to cover the demand. In that moment the market would be perfect.

However to interconnect it is needed two parts; in the case of Spain-Portugal it seems that interconnection capacity is enough for the moment. The problem rises in the Spanish-French interconnection where most people consider that France is the problem.

In the electricity field, perhaps Spain or even the Iberian Peninsula could be a real electricity island.

- In the gas field, is gas storage going to be fostered because of the gas hub? Will the Iberian gas hub be of utility for Spain?

10 years ago there was not enough gas storage capacity. As a consequence there was not possibility to develop a gas market. However today once gas storage capacity has been developed (Yela, Castor), shippers don´t want to pay for the expenses of gas storage. There are not big differences between seasons (summer and winter). Everything will depend on the gas prices and contracts. The results must be left to the market.

At present Spain is well positioned in gas pipelines, gas storage and so on. For instance, Spain is interconnected with Algeria by a gas pipeline so it is well positioned to be a gas hub.

In any case, it should be noticed that gas prices evolution is strange nowadays.

Gas prices in Spain shouldn´t be higher than in France. Probably there is less competence in the Hexagon. Therefore the problem could be that Spain imports much gas by ship (liquefied natural gas), more expensive that it would be employing pipelines. So the problem could be that there are not enough gas pipelines interconnections like in the electricity sector. Therefore, once again the Iberian Peninsula could be a real energy island.

Meanwhile French gas is bought employing long term contracts. However gas demand in that country is not as high as it was supposed to be. Consequently French companies that don´t want to lose so much money decide to sell it to Spain cheaper than they bought it. France loses money with natural gas, but less than it could be if it didn´t sell it to Spain. When gas interconnections were developed, it was supposed that Spanish gas was going to overwhelm France and at the end it has been the opposite.

At the end everything is a market question.

- France is missing the opportunity to introduce changes, changes that suppose money investment at present, but that would bring greater chances for the future. In addition everybody is losing money now, and it is time for changes and reforms.

- Everybody looks for competitiveness but those that look for it do not want to hear about competence, and consequently everything becomes more complicated. However competence is good for its economic profits and has benefits for consumers such as social welfare.

- It has been said that there is an objective of 10% of interconnections. However it is not a biding target in interconnections. This target was fixed in 2002 and it means a good level of interconnection, an objective.

The real biding objective could be that enough interconnections were developed to achieve a competitive price. For instance, in Spain and Portugal most of the time electricity prices are the same at both sides of the frontier. The case Spain-France is different.

It can be observed that there are incomprehensible and unreasoning behaviors. The above mentioned 10% objective in interconnections is not a biding target; however 20/20/20 is a biding target that has pushed Spain to develop renewable technologies with reduced prices and lack of infrastructure. That means that an important factor for Spain is not so important for the EU and vice versa.

- It was stressed that there are two important drivers, politics and markets, and that there is a permanent need for flexibility.

4. THE FUTURE GOVERNANCE OF EUROPEAN ENERGY POLICY

- What is the model of the European Commission? Where can it be found this model?

There is a big confusion among the European Union, European Commission, European Council and European Parliament concepts. The Council develops regulation and takes it to the Parliament to be approved or not. The Commission makes proposals when it considers that there is an option, a possibility on a certain subject. It is the unique supranational entity that can make countries discuss about an issue, however it doesn´t decide. It tries to align opinions to achieve an agreement.

For instance there is a general understanding that a fiscal agreement is needed.

- External energy policy

There are a lot of topics where the EU has made important progress; nonetheless it is not the case of a common external energy policy for supply.

For example, sometime ago, all the European countries agreed to give to the EU all the authority to solve the problem with the disruption of gas supply in 2009 and the Caspian Sea problem. It took 50 years and a lot of money to countries to achieve to such an agreement and it was an important step forward (27 counties agreeing in giving its representation capacity before third parties). However the EU is far from a foreign affairs common policy and further form an external energy policy. It is needed a previous agreement to began to act.

The agreement of constructing the gas pipeline in the Caspian Sea reduced the dependence of the EU on Russian energy. This decision made Russians angry, what was the supposed added value of making Russians being angry?

Progresses are good but they are not enough. More activity is needed in the energy field at the European level.

When talking about energy security in Europe everybody refers to security of supply. However for Russia it is security of demand. Diversifying energy origins is a necessity and Europe must be pragmatic. A European common energy policy must guarantee security of supply.

At the same time the EU must be careful with Russia. When a country becomes member of the EU there are some rules that must be accepted and as a consequence respected when acting as an individual nation. In this regard supply contracts (companies' contracts and not international treaties) are based on treaties between or among nations. As a consequence, a treaty between one member state and Russia is subject to European scrutiny.

The EU needs a unique framework for energy even if each country can decide about its own energy mix and has different energy suppliers from outside the EU. At the end

being energy dependent from international imports is not a problem, if the EU needs it imports. The matter is that Europe is dependent of a lot of things.

The problem with energy at a European level is that it can be considered from different points of view (geopolitics, competitiveness, security of supply, climate change, etc.). Will be there problems of security of supply in the following years? Perhaps, no one has the answer.

However the economic side of energy must not be forgotten as it has been done in the past. When economic issues are not taken into account a proposal can become really expensive. The case of renewable energies in Spain is a clear example. At present feed in tariffs is around 1% of the Gross added value.

It is 10 years since competitiveness is being destroyed. Usually competition is looked for reducing costs not the opposite, prices increases. Nevertheless, in Spain there is a trend during these last years when energy prices are increasing. In order to improve competitiveness it is necessary to let markets act.

However Government decisions increase energy costs and industry becomes less competitive.

One example of a EU decision risk is the Nabucco project for Spain. Spain has no interest on it as it has no direct pipelines from the Caspian Sea. However Spain must face the risk in Algeria, a country that is far from the European type of regulation and the EU is not worried about it. In this regard, Morocco is nearer Europe than Algeria.

Another example happens in Germany. In that country the European Union objective to increase renewable energies to reduce CO_2 emissions will cost around 680 billion Euros for the period 2013-2022. Nevertheless have emissions been reduced? No, instead gas is being substituted by coal and this new situation poses a big expense.

The liberalization process and the third package have modified business framework. In this regard there is a tendency towards a one sided process through interventionism. There is a broader competition but EU still misses integration. Therefore energy policy cannot be limited to liberalization and market.

The European Union is a complex system, what could be the instrument that solving some barriers could develop a dynamics that will let the EU advance?

- There is a general illness in the energy sector, which technology does not receive help nowadays? Perhaps it is gas.

When developing the energy/climate package 20/20/20 (where the main driver was climate change) some European countries opposed to create a European framework for financial assistance to renewable energies. In any case, RES support is not considered state aid.

- Is it possible to build up the Iberian market with the development of renewable energies?

It is true that Spanish and Portuguese energy mix are getting closer, Portugal with more hydro than Spain. The experience in developing the Spain-Portugal market has been positive, money knows where to go. This year Spanish fiscal policy is responsible to have unbalanced energy and money flows.

- Oil companies, gas companies and banks from developing nations with oil and gas sources are the best run business in those countries, because they know northern countries energy dependency, as well as their capacity to withstand higher energy prices.

The EU has also developed rules and norms in order to organize security of supply, to face instability and unpredictability of supply countries. At the same time to improve security of supply there should exist a good context or framework in order to negotiate.

- In the Madrid Forum there were people who asked for oil prices indexation for gas.

- At present there is a need to define new objectives and detect how to achieve them. However present situation cannot be considered as the basis for the future because probably the future is going to change. It is not convenient to extrapolate present situation for the future.

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