In 2011 the Heads of State or Government recognized the importance of having an internal energy market in place and set a clear deadline for its completion by end 2014, underlining that no EU Member State should remain isolated from the European gas and electricity networks after 2015.

The Italian Presidency intends to adopt Council Conclusions on the Completion of Internal Energy Market at the Energy Council in December. The forthcoming Commission Communication as well as the outcomes of proposed ministerial debate at the informal meeting will contribute to this process.

The importance of the energy sector to Europe's competitiveness, welfare and independence means that the EU cannot afford to slow down efforts towards more integrated energy markets. A recent study commissioned by the Commission estimates the net economic benefits from completing the internal market to be in the range of 16 - 40 billion euros per year.

Europe is moving in the right direction. Market integration is delivering concrete results.

- Progress on the implementation and application of the Third Energy Package

A harmonized legal framework at European level has started to take solid shape. On 26 September 2014, national legislation transposing fully the Directives is now in place in all but two Member States. The Commission now turns its attention to non-conformity checks in order to verify whether the notified measures by the Member States correctly transpose the Third Package.

- New infrastructures and increased cross-border exchanges

The last years have witnessed progress in getting investments done, particularly in transmission infrastructure and particularly in countries where a stable regulatory framework is in place. Many missing links have already been completed. And other vital projects are currently under construction both for electricity and gas.

Cross-border trade between most European countries has increased and so has the use of interconnectors and the share of imports in the total electricity available for final consumption has grown in 23 Member States between 2008 and 2012.

- Competition is keeping prices in check

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The increased competition on the wholesale market has significantly impacted prices. According to Commission analysis for electricity, wholesale prices have fallen significantly – between 35% and 45% between 2008 and 2012 – and they have remained stable for gas\(^2\). However, while the development of prices on the wholesale markets is encouraging, consumers are not directly experiencing these benefits. An important and growing part of retail energy bills in the EU consists *inter alia* in taxes and surcharges. In order to moderate retail energy bills, Member States will need to better assess and coordinate their interventions in the energy market and the costly surcharges that result from such actions.

- **Significant progress with market coupling**

Significant progress has been achieved in the the day-ahead market coupling project, a milestone on the way towards an integrated European electricity market.

In electricity, in February 2014, grid operators and power exchanges from a number of Member States established the so-called 'day-ahead market coupling', a mechanism that manages cross-border electricity flows in an optimal way, smoothing out price differences in different regions. Since May 2014, the South-West European Market is also coupled with North-Western Europe.

In gas, an achievement of similar impact is the establishment of the PRISMA-platform in 2013, where interconnection capacity for the networks of 28 TSOs responsible for transporting 70% of Europe's gas is auctioned in a transparent and uniform manner.

**Market integration requires more grids and more transparent, simpler and robust rules**

- **Additional infrastructure needs to be built urgently**

Energy markets can only function when they are well-connected. More investment in strategic energy infrastructure is needed and Europe can help to support important investments both financially and administratively.

In gas, investments should first and foremost focus on ending isolation and diversification of supply enhancing EU energy security in most vulnerable member States.

In electricity, linking the electricity grids of the Iberian Peninsula, the Baltic region, Ireland and the United Kingdom better with the continent remains a priority. The construction of an integrated offshore grid in the Northern Seas that will allow cost-optimal integration of the EU's significant offshore wind reserve in the power system is another important challenge.

Moreover, smart electricity grids are needed. They are an essential tool to secure supplies, facilitate the integration of intermittent sources of energy, enhance the functioning of retail energy markets and develop the engineering solutions and innovative products, something that EU companies have traditionally been good at.

- **Adoption of further network codes and better implementation are needed**

The work on ensuring a framework for the efficient use and development of capacities in gas pipelines and electricity grids needs to be stepped up especially in finalizing the electricity network codes and in overseeing the timely and correct implementation of all network codes throughout the EU. Progress diverges between the electricity and the gas sector as well as between regions.

- Ensure well-designed public intervention

The Commission provided guidance to Member States to ensure that their interventions are necessary and proportionate pointing at their pivotal role in making the internal market a success rather than intentionally or unintentionally damaging it. Where the intervention is justified, the latter should be designed to facilitate market integration. Member States are committed to change their support schemes and incentive measures, including capacity mechanisms, in order to bring them into line with the guidance provided by the Commission. The focus should now shift from preventing Member States to act in isolation towards assessing how the gains from an integrated approach can be best achieved.

More can be gained from deeper integration based on regional integration

A competitive and integrated internal market is a basis for the cost-efficient decarbonisation of our energy systems and is Europe’s key insurance for a high level of security of gas supply. A deepened regional cooperation is a decisive step towards the ultimate consolidation of a single energy market across the EU. We also need strengthened governance for the internal energy market, enhanced co-operation or centralization of certain elements of grid operation and additional instruments to enhance security of supply. In addition, significant gains can be achieved from an improved functioning of the retail market.

Questions for Discussion

(Please note that, considering the shortage of time, delegations are not required to answer every question)

1. A fully integrated internal energy market is a prerequisite for achieving three fundamental objectives in EU: affordable and competitive energy price, security of supply and environmentally sustainable energy sector. Considering these objectives, in which area of the internal market do you recognize the main challenges?

2. How could a regional and cross border approach help in ensuring security of supply and contribute to a timely implementation of network codes? To these aims, which concrete forms of regional cooperation should be put in place and what possible barriers do you identify in this respect?

3. Do you see merit in improving the convergence of wholesale prices and that of retail prices and how could this be achieved?