

# Regional cooperation in the Energy Union

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# NORTHERN SEAS AS THE POWER HOUSE OF NORTH-WESTERN EUROPE



## ► Preamble

As Members of the European Parliament who come from countries neighboring the Northern Seas, we strongly believe that increased regional cooperation is the best way to realise the full potential of the Northern Seas energy system, to help create sustainable growth. Ensuring the development of an adequate energy system, while reducing costs (on components, operation and maintenance, grid devices), will depend on close cooperation between EU Member States bordering the Northern Seas.

Five years after the establishment of NSCOGI, in a period where three Northern Seas countries (Luxembourg, the Netherlands & the United Kingdom) are holding the Council's Presidency in quick succession, a new impetus is needed and is possible.

We call on decision-makers from Belgium, Denmark, France, Germany, Ireland, Luxembourg, the Netherlands, Sweden and the UK, together with industry, social partners, and the EU Commission, to build on the existing cooperation structures (particularly NSCOGI) and create a new high level political process in order to make Northern Seas regional cooperation a showcase for the Energy Union. We believe that the progressive, large-scale, deployment of off-shore wind farms and emerging marine renewables, along with the completion of a meshed electricity grid, should be the backbone of Northern Seas regional cooperation. This manifesto proposes an action plan to bring into reality the European Parliament's call for "strong political support and endorsement of the North Sea Offshore Grid as a key step in building an effective Energy Union" (adopted on 15 December 2015).<sup>1</sup>

The completion of this Action Plan would be a major step forward in the establishment of a strong, transparent and reliable governance structure supporting the deployment of off-shore wind farms, emerging marine renewables and a well-interconnected electricity grid. It would make the Northern Seas the "power house" of North-Western Europe under a strengthened Energy Union.

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This Manifesto is endorsed by above-mentioned MEPs on an individual basis and does not necessarily reflect the views of all political groups.

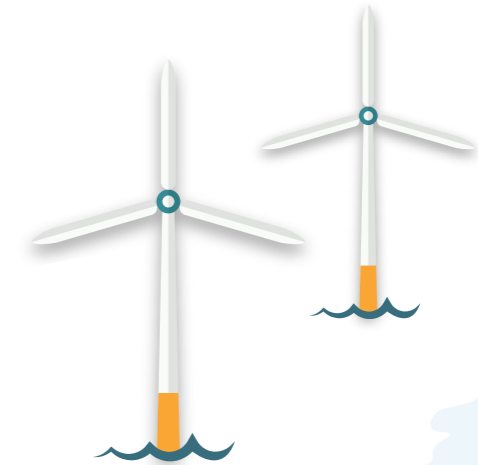
## ► Introduction

One of the added values of the Energy Union is to promote greater regional cooperation between Member States, to create a fully integrated energy market. Taking stock of what was achieved in South-East Europe and in the Baltic, Vice-President Šefčovič noted, in his State of the Energy Union address (adopted on 18th November 2015), that "more such regional initiatives are needed e.g. with regard to the Northern Seas and Mediterranean region...the Commission therefore intends to create a High-Level-Group for regional cooperation in the North Sea in order to tackle the regulatory, financial and spatial planning issues which impede the implementation of these projects".

We fully subscribe to this vision of high-level political cooperation, in addition to the technical work completed thus far, while reiterating that regional cooperation in the Northern Seas should go beyond grid issues and address off-shore wind deployment, emerging marine technologies and deeper integration of the power market.

The development of stronger regional cooperation in the Northern Seas will help create local jobs and growth, reduce costs and ensure energy security, as well as EU technology leadership in off-shore wind and other emerging marine renewables. Such cooperation will also help the EU to implement and achieve the commitments made at Paris as part of the COP21 agreement, helping to limit global warming to under 1.5°C.

The European Parliament acknowledged on 15 December 2015 that "offshore wind in the North Sea region has the potential to generate over 8 % of Europe's power supply by 2030".<sup>2</sup> Regional cooperation on technical elements of the energy system in the Northern Seas has already been taking place for a number of years. This has mostly come under the North Sea Countries' Offshore Grid Initiative (NSCOGI), established in 2010, although in 2014 the EU adopted the Maritime Spatial Planning directive,<sup>3</sup> an instrument that favours consistent cross-border planning. The NSCOGI five year celebration conference in Ostende on 23rd October 2015 was an occasion for Member States to renew their commitment, while the Belgian Minister Marie-Christine Marghem expressed her intention to propose a new action plan for the coming five years. NSCOGI represents a solid foundation for further cooperation. Nevertheless, new cooperation structures such as a High Level Group are necessary to provide more political direction and cooperation should be broadened beyond grid issues, to include the deployment of a coordinated at-scale off-shore wind programme.



<sup>1</sup> European Parliament resolution of 15 December 2015 on achieving the 10 % electricity interconnection target – Making Europe's electricity grid fit for 2020 (2015/2108(INI))

<sup>2</sup> European Parliament resolution of 15 December 2015 on achieving the 10 % electricity interconnection target – Making Europe's electricity grid fit for 2020 (2015/2108(INI))

<sup>3</sup> Directive 2014/89/EU of 23 July 2014 establishing a framework for maritime spatial planning.



## 1/ Off-shore wind energy as a way to make the Northern Seas the “power house” of Europe

Together with photovoltaic, wind energy (both on- and off-shore) is one of the big winners of the low-carbon technology race. Off-shore wind energy also demonstrates tremendous further potential, as various scenarios envisage the total installed capacity increasing from 10 GW today<sup>4</sup> to between 70 and 100 GW in Europe by 2030. This would make it fourth largest electricity generation source, (after on-shore wind, PV, gas and CHP<sup>5</sup>) and therefore, one of the best options to help achieve decarbonisation. Some 37 off-shore wind farms are currently operational in the Northern Seas.<sup>6</sup> Nevertheless, the sector remains immature compared to on-shore wind and needs to achieve significant cost reductions and technological progress in the coming years in order to realise these scenarios.

Cost-reductions can be achieved via a number of measures taken at regional level.<sup>7</sup> Firstly, Member States should commit to a stable, long-term regulatory framework providing investors with predictability, and should streamline safety and administrative requirements while maintaining the highest possible standards, as has been the case for off-shore oil and gas drilling operations. Secondly, standardisation is key, not only for the supply chain to advance serial production (notably of blades), but also in terms of system technologies, optimisation of support structures, improvement of installation logistics, as well as joint installation and maintenance capacity building.

A combination of strong industrial leadership and close regional cooperation of governments can ensure a steady flow of projects in the pipeline and deliver significant cost-reductions. The sector is already strongly Europeanised and off-shore wind is more dependent on cross-border electricity grid interconnection than other RES technologies. Supply chains are often geographically spread over several Northern Seas countries. It is common that a company originating from one Member State builds up a wind farm in the waters of another Member State, while the installed turbines were manufactured in a third Member State and the operational maintenance is performed by a company based in a fourth Member State.

The Northern Seas are unique as they represent the largest potential, in terms of installed electricity capacity, to contribute to the EU’s 2030 energy and climate targets. Offshore renewable energies in the Northern Seas will make a significant contribution to jobs, growth and innovation and can help to maintain European technology leadership in turbines and electricity grids. They will also boost energy security: reducing our dependence on gas and reducing the need for oil in transportation, by accelerating our ability to electrify road transport.

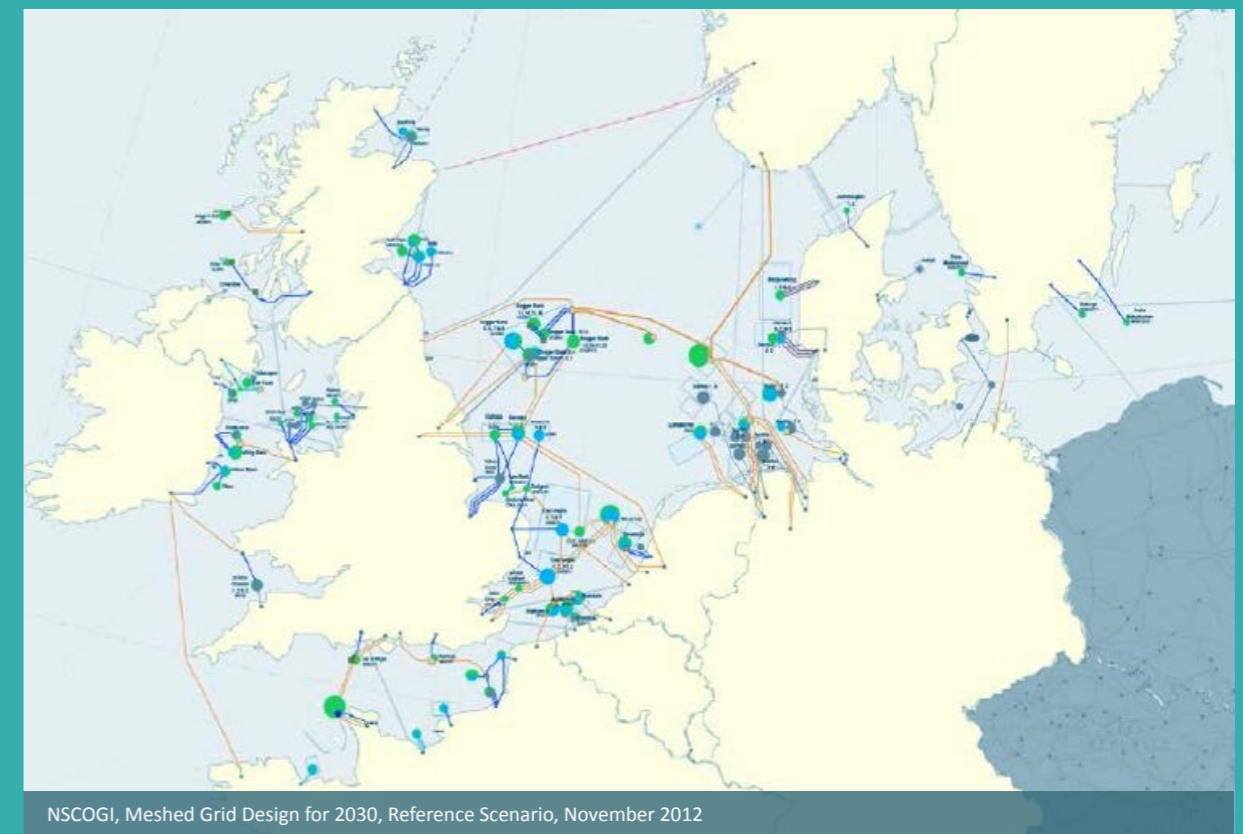
While the North Seas would mostly rely on off-shore wind, regional cooperation should also take into consideration the developments of emerging marine renewables. Ultimately, progress made in the Northern Seas will benefit the whole of Europe and help accelerate the development of wind in other coastal regions of the EU, notably the Baltic Sea, the Black Sea, the Mediterranean and the Iberian Atlantic coast, thanks to cost reduction and technological improvements such as enabling installations for deeper waters.

## 2/ Interconnections and smart grid: key enablers

The EU is currently split into different power pricing zones, with different patterns. Analysing the dynamics and tendencies of these pricing zones allows us to draw the following conclusion: the more a market is interconnected, the lower wholesale prices. The Scandinavian market (Nord Pool) is an example of a well-interconnected area displaying lower prices, while the United Kingdom and Ireland are an example of poor interconnection (6% and 9% respectively), high wholesale (some 27 €/MWh higher than Nord Pool).<sup>8</sup>

Building more interconnectors would be a gain for all Member States of the Northern Seas, as it would reduce system costs caused by congestion.<sup>9</sup> While a meshed grid would be optimal, an alternative solution would be to go for a “shoe-lace” grid in the Northern Seas. The “shoe-lace” approach allows for quick investment decisions on most-needed interconnection cables, while leaving opportunities to upgrade cables at a later stage, so that they play the role of both a classical interconnector between two countries and could also be a link between an off-shore wind farm and the shore. While a meshed grid would also have the advantage of being ready for the future deployment of other emerging marine renewables.

Finally, European companies such as ABB, Alstom Europe and Siemens, together with a robust SME sector, are global leaders on cables and grid systems. A joint grid development programme in the Northern Seas will be beneficial for jobs and growth in Europe and give to these European leaders a wide domestic market which can serve as a robust basis for them to export their technology and know-how.



<sup>4</sup> EWEA, [The European offshore wind industry: key trends and statistics 1st half 2015](#).

<sup>5</sup> EWEA, [Aiming High](#), 2015.

<sup>6</sup> EWEA, [European Offshore Statistics 2014](#).

<sup>7</sup> Foundation Offshore Wind Energy, [EU and Regional Policies for Offshore Wind: Creating Synergies](#), November 2014 and The Fichtner Group & Prognos AG, [Cost-Reduction Potentials of Offshore Wind Power in Germany](#), 2013.

<sup>8</sup> EU Electricity Market Observatory, Q1 2015: UK average price 55,5 €/MWh; Nord Pool average price 28 €/MWh.

<sup>9</sup> ACER-CEER, [Market Monitoring Report](#), November 2015.



### 3/ Our recommendations: a 7-step Action Plan

1

To build and secure the political support necessary, Member States should **ESTABLISH A HIGH LEVEL GROUP** gathering energy Ministers and the Commission, as well as ensuring the involvement of European and national parliamentarians. This High Level Group should also convene at technical level to coordinate the actions of TSOs, and national regulatory and planning authorities. In addition, the EU should **CONVENE REGULAR MEETINGS OF ALL RELEVANT STAKEHOLDERS** (building on good practice such as the Ocean Energy Forum), notably industry, civil society organisations, trade unions, regions, local authorities and cities.

2

Member States and national regulatory authorities should create optimal conditions for the deployment of a smart and integrated grid in the Northern Seas. This should allow TSOs to agree a **20-YEAR GRID DEVELOPMENT PLAN** for Northern Seas, while ensuring this big investment will be adequately recovered by pricing and charging practices under supervision of national regulatory authorities. These investments projects should be proposed as Projects of Common Interests (PCIs) and should be eligible to receive funding through the Connecting Europe Facility (CEF), ensuring they meet the specified requirements. Such a development plan should be forward-looking, to fully take into account the **ROLE OF EMERGING MARINE RENEWABLE TECHNOLOGIES**. Discussions should also be held to assess whether the grid resulting from this integrated development plan should better be operated by a dedicated ISO (Independent System Operator) where TSOs would join forces.

3

Member States, the Commission, the European Investment Bank and the national promotional banks should engage in a de-risking strategy to reduce capital costs by creating a **SPECIAL FINANCE VEHICLE** linked to EFSI (Juncker Plan) for both off-shore wind and cable infrastructure. Such a vehicle would also ease the participation of institutional investors such as pension funds.

4

Under the coordination of the Commission, Member States should **REDUCE RED TAPE** by prioritising common standards on health and safety, based and building on best-available practice from already existing Northern Sea oil and gas infrastructure. These institutions should also engage in consistent cross-border cooperation in maritime spatial planning, involving all maritime sectors (transport, fisheries, tourism) and paying due attention to environmental planning (habitat and birds protection requirements) and harbour management, enabling the Northern Seas to become global standards setters for offshore-grid safety.

5

A coherent regulatory framework would allow Member States to **ALIGN OR AT LEAST BETTER COORDINATE THEIR AGENDAS AROUND CALLS FOR TENDERS FOR OFFSHORE WIND ENERGY** to meet their 2030 objectives for off-shore wind, to provide strong levels of predictability for investors and prevent stop-and-go policies. This would also prevent market from brutally shifting from over-heated to lethargic periods (e.g. when Danish and British tendering processes ran exactly at the same time). Member States should also explore the feasibility of launching joint projects, as foreseen by the Renewable Energy Directive.

6

Member States should outline the technical and administrative requirements to install a Northern Seas **ELECTRICITY TRADING ZONE**, going beyond the existing market design and fostering even deeper cross-national integration on gate closure times, ancillary services, balancing, etc.

7

The EU should support the establishment of a **PAN-EUROPEAN TURBINE TESTING CENTRE**, in order to reduce technological risks and costs for the supply chain industry to test and prove new off-shore wind technologies and products.



