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The end of the energy price crisis must not mean the end of the energy transition

In many respects, Europe has recently experienced a rude awakening, albeit a salutary one. Barely recovered from the Covid pandemic, it has had to contend with the most serious energy supply crisis since the oil shocks of the 1970s, due to Russia's invasion of Ukraine and the subsequent disruption of Russian gas supplies, particularly via the Nord Stream pipelines.

After electricity prices rose to extreme levels, their recent decline in Europe is particularly welcome. But this respite is far from enough. On the one hand, electricity prices are still higher than before the crisis and, on the other hand, they remain almost twice as high as those of our main trading partners, weighing on household purchasing power and business competitiveness.

Such constraints, combined with rising geostrategic and trade tensions and the need to strengthen our common defence, have led some segments of European public opinion, including some economic actors, to question the efforts undertaken in the energy and climate transition. However, there can be no question of abandoning the path of energy transition, as the current tensions confirm the necessity and legitimacy of this approach.

- This is, of course, about our climate future: numerous and consistent studies show that doing nothing rather than taking action will cost our economies and ourselves much more.
- Geopolitical and economic tensions are accentuating the convergence between these imperatives and the need to strengthen our sovereignty, through diversification of supply sources and greater control of production cycles on our own soil.
- The growing electrification of uses is generating a new industrial revolution – particularly in the mobility and artificial intelligence sectors – creating an economic and ecological dynamic that Europe is in a position to capture.

Combining these imperatives therefore means accelerating the transition to energy and decarbonising our consumption. The current crisis has shown us that massive reliance on natural gas cannot be as stable a transition solution as we had hoped. Rising electricity prices have led to an acceleration of renewable energy projects and installations. More Member States support the development of nuclear power, better integrated into the overall mix and included in the European taxonomy. France, which is committed to renewing its facilities, is at the forefront of these efforts. Finally, strengthening and reorganising our electricity networks, including the development of interconnections, is already at the heart of our industrial strategies.

It is in this context that the European Union Agency for the Cooperation of Energy Regulators is working in concert to support Europe's energy transition.

- Firstly, given the financial constraints, it is clear that we will need capital markets to decarbonise. This will mainly be achieved

through the electrification of production and consumption, as the investment required is considerable.

- In Europe, renewable energies are promoted through two channels:
  - Public funding, as in the case of renewable energy sources, which are almost entirely supported by public funds to the tune of several billion euros each year.
  - Private funding:
    - either by basing their sales strategy on wholesale markets, but this is more developed among our neighbours, particularly for large offshore wind farms.
    - or by signing mutual contracts, power purchase agreements (PPA). These have yet to be developed, as they require solid consumers who are prepared to make a commitment, and producers who feel that this is a better solution than public support.

The European Energy Regulators are involved in supporting renewable energy. They prepare calls for tenders and issue opinions on appropriate levels of support. However, it would be unrealistic to expect public support to continue indefinitely, at least not at the same level as today. Other levers must therefore be developed to encourage investment in renewable energy. This was one of the central issues to the electricity market reform adopted in 2024, to develop medium- and long-term maturities to give investors greater visibility beyond one- or two-year contracts.

Liquidity has developed well over three and four years, but we now need to go further and consider the technical arrangements that will allow us to move to a new time frame. This may also concern capacity allocations to interconnections, for example.

In this context, the growing attractiveness of PPAs will depend on broader access to these offers on the one hand, and on the adaptation of public support mechanisms on the other, creating a more attractive environment for private financing.

Furthermore, regulators are not losing sight of the issues of sovereignty and the relocation or preservation of energy industries on the European continent. This is why, in the context of tenders, particularly for offshore wind power, they are pushing for a strengthening of criteria that are not strictly financial, in favour of criteria that assess the overall robustness of projects. Hence the regulation for a net zero emission industry (NZIA), adopted by the European Union in 2024, is part of this thinking. It aims to implement non-price criteria (carbon footprint, resilience, social responsibility), encouraging the relocation of photovoltaic panel production (as well as their components and modulation and storage tools) to Europe. We will also have to rely on the development of a recycling industry for the rare raw materials contained in the new components of these industries. This scheme supplements the rules of the so-called CBAM introduced in 2023 and aimed at subjecting products imported into the European Union to carbon pricing, in order to bring them to a level of cost and constraint equivalent to those applied to European manufacturers.

Furthermore, we cannot ignore changes in final demand, whether from consumers or businesses.

The Russian crisis and rising gas and electricity prices have led to a sharp drop in final demand and greater attention to energy efficiency. The downward trend in consumption had begun before the crisis and is now continuing. This trend mainly reflects improvements in the efficiency of electrical equipment and appliances, while the decline of industry in our countries has also weighed on overall consumption. Finally, we can only encourage new energy-saving habits, which will help moderate the growing electricity needs of our countries.

Nevertheless, regulators believe that it would be a mistake to reduce investment in production or networks, as some suggest, based solely on the current slowdown in demand. On the contrary, to decarbonise our society, it is absolutely vital to support the electrification of uses. This means encouraging consumers to switch to electricity, for example for heating or transport. Furthermore, preserving our industrial fabric means supporting it in its energy transition. In this regard, it should be noted that many avenues for development still remain to be explored and exploited. The transition to biomethane, for example, means that we will have less gas than our fossil gas import capacity. Should this capacity be reserved for industries that cannot

do without this molecule, or for individual consumers who are still attached to this energy source or lack the means to convert? Finally, projects to develop green hydrogen production and carbon capture have not yet reached critical mass.

With regard to electricity, regulators have already committed to supporting financing plans for investments in networks and production facilities, counting on consumption to meet targets from 2030 onwards. This does not completely immunise us against the risk of a lasting gap between rising supply and still lower demand. However, the industrial cycle in the energy sector is long, which means that production and transport capacities will have to be adapted to future needs. In addition, it will be necessary to maintain a policy of supporting electricity consumption/conversion, for example for heating and transport. From this point of view, the price of electricity is a determining factor in changing usage patterns. Of the three components of the bill – market prices, the network share and taxation – the latter must necessarily remain moderate and non-discriminatory compared to other energy sources. So it will not just be a question of consuming more electricity – regulators do not want to encourage waste – but of consuming it better, i.e. at the best time for the electricity system and for consumers in terms of price.

Demand flexibility is therefore one of the keys to the success of the energy transition. Industrial players already have the option of signing up to specific contracts and participating in load-shedding mechanisms. For residential consumers and more traditional businesses, peak/off-peak pricing remains the main lever for shifting consumption. With the growing contribution of renewable but intermittent energies, the aim is to shift – and then increase – off-peak hours from night-time to midday in summer, in order to take advantage of renewable production when it is most abundant and cheapest. This reform is very important to ensure that our consumption makes the most of the changes in the electricity system. We see this as a win-win response to the growing phenomenon of negative prices, which will help limit the constraints of modulating the electricity production mix.

Finally, emphasis must be placed on networks.

To support the development of production, electricity transmission and distribution networks must be transformed to meet the challenge. Every EU Member State faces the same constraints to varying degrees. Networks are facing rapidly growing development needs linked to their renewal and adaptation to climate risks, the acceleration of connections to new renewable energies, the decarbonisation of industrial areas and flexibility requirements. The challenge for regulation is to give operators the necessary means to fulfil their missions while ensuring that spending is efficient and does not impact consumers' bills. Electricity network operators will therefore invest heavily to maintain, renew and develop their assets. Gas network operators will need less funding, despite the decline in consumption of this fossil fuel, as infrastructure must continue to be maintained for obvious safety reasons and also adapted to the transport of biomethane, carbon and hydrogen. It will be up to the shareholders of these entities to support these investments. Network regulation is one of the CRE's main tasks and one of the concrete ways in which it can promote decarbonisation by encouraging connection in industrial areas that are decarbonising and incentivising performance in terms of renewable energy connection.

In conclusion, it should be remembered that Europe has ambitious targets in terms of decarbonization. These are now translating into concrete results. They aim to:

- plan the further development of decarbonised energies at the most appropriate level, avoiding a 'stop and go' approach and including nuclear management;
- provide a clear framework for the proper sizing of electricity and gas networks;
- and finally, provide visibility for all the European industrial sectors concerned.

This strategy for energy supply sovereignty and decarbonisation should make it possible to:

- continue the development of renewable energies and optimise the nuclear fleet. Renewable energies will provide the additional supply needed until new reactors come online after 2035. This

development can be optimised for public finances by further improving the technical characteristics of support mechanisms and increasing the number of projects financed without public support;

- develop flexibility to ensure the best possible balance between supply and demand and the satisfactory operation of all components of the electricity system, with each type of production playing its part in the adjustment mechanisms. Storage solutions will also need to be further developed;
- encourage the complementarity of decarbonised energies to take advantage of the benefits of each energy vector (renewable gas and heat, geothermal energy, etc.).

To achieve all this, it will therefore be essential to implement binding and stable public policies over time in the transport, buildings and business sectors, particularly in industry. Predictability is also an important factor when it comes to supporting demand. More than ever, the need to decarbonise the energy sector will have the effect of strengthening European sovereignty, while preserving security of supply and remaining committed to affordable energy prices for both private consumers and economic players, in a context of improved competitiveness. With this in mind, on 23 April the Polish Presidency of the Council of the European Union is organising a conference dedicated to energy security. The Council will aim to improve the resilience of the European economy in a new global context of access to energy resources, in order to equip itself with the means to deal with external threats and pressures and to consider the best ways of increasing the Union's competitiveness.

The new international environment is pushing us in this direction and strengthening our efforts. The challenge is considerable. We believe that the current circumstances, however difficult and uncertain, can only strengthen our determination to decarbonise our economies, building on the diversity of the European energy mix, organised around an efficient and regulated market and supported by an effectively interconnected network.

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