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ECA audit experience in the field of energy

Challenges in the Sustainable Energy Field
Prague, Czech Republic

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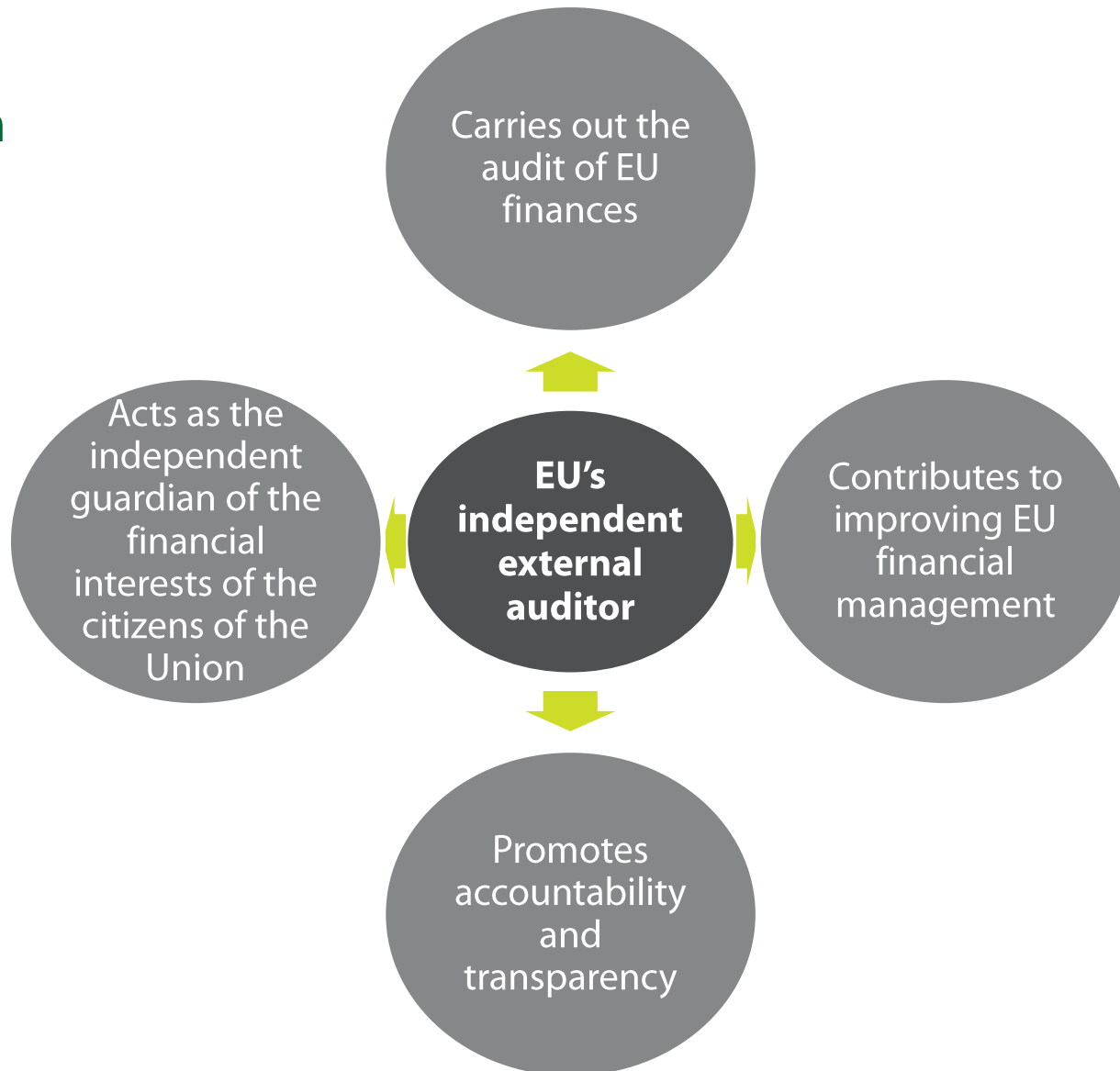
EUROPEAN
COURT
OF AUDITORS

Contents

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- Our work on energy
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The ECA as an EU institution

Mission



Types of audits

Selected audits (*special reports*)

Financial audit

Reliability of the accounts

Obtain evidence on the extent to which transactions, assets and liabilities have been completely, correctly and accurately entered in the accounting records and presented in the financial statements

Compliance audit

Legality and regularity of transactions

Obtain evidence on the extent to which EU revenue and spending operations have been carried out in accordance with contractual and legal requirements and are correctly and accurately calculated

Performance audit

Soundness of financial management

Obtain evidence on the extent to which EU funds have been used economically, efficiently and effectively, and provide value for money

Statement of assurance (*annual reports*)



The Energy Union aims at ensuring that Europe has secure, affordable and climate-friendly energy

- Security of electricity supply
- Security of gas supply
- Minimum stocks of oil

Energy security,
solidarity and trust

Research,
Innovation and
Competitiveness

Energy
Union

Fully integrated
European energy
market

Decarbonisation
of the economy

Energy efficiency
contributing to
moderation of
demand

- 3 legislative packages
 - Internal market rules
 - Unbundling
 - National regulator
 - Cooperation (ACER, ENTSO)
 - Network development plans
 - Cross-borders exchanges
 - Gas networks
- State aid guidelines

- Horizon 2020
- SET-plan

- Emissions Trading System
- Renewable energy
- Nuclear: waste, nuclear safety, nuclear safeguards, ITER, decommissioning

- Energy efficiency
- Eco-design
- Energy labelling
- Energy Performance of Buildings



Our seminar on auditing Energy and Climate (Jan. 2017): Two sides of the same coin



• Plenary

- EU energy and climate post-Paris Agreement: The way forward (Commission)
- ECA Landscape review of EU Energy and Climate (ECA)
- Latest from the EUROSAI Working Group on Environmental Auditing (EUROSAI)

• Workshops

- Main risks and challenges in auditing EU energy and climate post-Paris
- Auditing the numbers: Measuring, Reporting and Verification (MRV) of greenhouse gas emissions and budgetary data
- Cost-effectiveness of public funding in the area of energy and climate



On-going work on energy

Performance audit on renewable energy projects for rural development supported through EAFRD

- “Is EAFRD support for renewable energy designed and implemented in a way that facilitates renewable energy deployment and sustainable rural development?”
- Based on visits to the European Commission and also **5 Member States** (AT, FR, IT, BG, LT)
- **Expected publication**
 - February 2018

On-going work on energy

ECA Landscape Review of EU energy and climate

- **Overview of the issue** based on Court's research and accumulated experience
- Observations not susceptible to audit *per se*, but **important for public accountability and the ECA's audit mission**
- **Scope of this review**
 - What is the EU doing?
 - Overview of audit work of ECA and EU SAIs
 - Overview of main issues in the field
- **Expected publication**
 - Summer 2017

Purpose of Landscape Reviews

- // • *[Landscape Reviews] consider broad themes on the basis of the **Court's research and accumulated knowledge and experience** [...].*
- *[They] serve as an important basis for:*
 - **consultation and dialogue** with the ECA's stakeholders and
 - for **future audit work** of the ECA.
- *They enable the Court to **submit observations on matters which are not necessarily susceptible to audit per se** but are nonetheless important for public accountability and the ECA's audit mission.*



Our special reports on energy issues

- Special Report 7/2008 on “**Intelligent Energy** (2003-2006)”
- Special Report 16/2011 on “EU financial assistance for the **decommissioning of nuclear plants** in Bulgaria, Lithuania and Slovakia”
- Special Report 21/2012 on “**Cost-effectiveness** of cohesion policy investments in energy efficiency”
- Special Report 15/2013 “Has the environment component of the **Life Programme** been **effective**”?
- Special Report 06/2014 on “Cohesion policy funds **support to renewable energy** generation”
- Special Report 15/2015 on the “ACP-EU Energy Facility support for **renewable energy in East Africa**”

Our special reports on energy issues

- Special Report 16/2015 on “Improving the **security of energy supply** by developing the internal energy market”
- Special Report 22/2016 on “EU **nuclear decommissioning** assistance programmes in Lithuania, Bulgaria and Slovakia”

All of our published reports may be found at:

<http://www.eca.europa.eu/en/Pages/PublicationSearch.aspx>

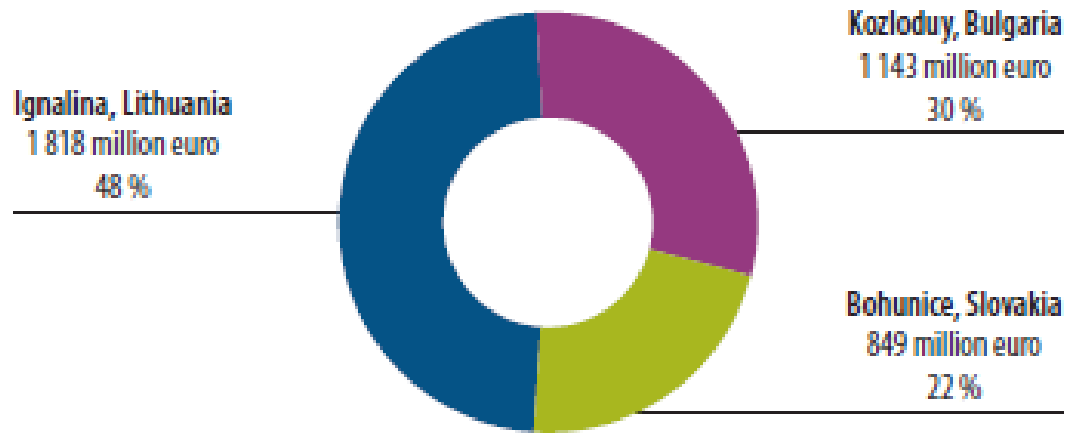
Nuclear decommissioning assistance

EU nuclear decommissioning assistance programmes in Lithuania, Bulgaria and Slovakia: some progress made since 2011, but critical challenges ahead (Special Report 22/2016 (September 2016))

- **Audit objective**

- To determine whether progress has been made in the implementation of the EU's nuclear decommissioning assistance programmes for Lithuania, Bulgaria and Slovakia since 2011, when our previous report on the subject was published.

Share per Member State of overall EU decommissioning assistance from 1999 to 2020



Source: ECA, based on data from the European Commission.

Nuclear decommissioning assistance

Findings: Progress since 2011

- **Some progress** made in decommissioning since 2011
 - key components dismantled in the plants' **non-controlled areas**
- **But critical challenges** lie ahead for all three Member States
 - e.g. dismantling the **reactors**
- **Commission's "expected outputs" for irreversible closure** not all met
- Dedicated EU funding programmes have **not created the right incentives**

Nuclear decommissioning assistance

Findings: Waste management

- **Waste management infrastructure:** some progress, but:
 - many key infrastructure **projects experienced delays** in 2011 to 2015
 - longest delays in Lithuania, where the decommissioning end date has, since 2011, been postponed by a further 9 years to 2038.
 - **challenges with major projects** in each Member State e.g.:
 - Lithuania – Interim storage for spent fuel assemblies
 - Bulgaria – National disposal facility for low/ intermediate-level waste
 - Slovakia – Decontamination of the primary circuit
- Work on potential **final disposal solutions for high-level waste and spent nuclear fuel** still only at conceptual stages

Nuclear decommissioning assistance

Findings: Financing decommissioning

- **Decommissioning financing gap**
 - in Lithuania gap now risen to 1.56 billion euro
 - 28 million euro in Bulgaria, 92 million euro in Slovakia
- Member States **co-financing remains very limited**
 - full EU financing only in '*well-founded exceptional cases*'
 - but no Commission clear guidelines yet
- **Staff levels have declined**
 - but some EU funds still used, e.g. in Lithuania for staff working on plant maintenance

Nuclear decommissioning assistance

Findings: costs, including final disposal

<i>[million euro]</i>	Ignalina, Lithuania	Kozloduy, Bulgaria	Bohunice, Slovakia	Total
2015 cost estimate, <u>excluding</u> high-level waste and spent nuclear fuel disposal	3 376	1 107	1 239	<u>5 722</u>
Cost estimate for final disposal of high-level waste and spent nuclear fuel from the eight reactors	2 610	1 590	1 466	5 666
Cost estimate, <u>including</u> high-level waste and spent nuclear fuel disposal	5 986	2 697	2 705	<u>11 388</u>
National financing	262	348	476	1 086
EU financing	1 553	731	671	2 955
Financing gap	4 171	1 618	1 558	7 347

Nuclear decommissioning assistance

Findings: Reporting and accounting

- Commission's assessment of financing and decommissioning plans, under ***ex ante* conditionalities**, was inadequate
- **future costs of nuclear decommissioning and final disposal**
 - not always recognised as provisions
 - and/or included in notes to accounts
- **Commission reply said it would publish:**
 - by Oct '16: Commission's Assessment of the ex-ante conditionalities
 - by end '16: Assessment of National Programmes in all 28 Member States

Nuclear decommissioning assistance

Recommendations

- Ensure progress in decommissioning, by improving project management practices, building up technical capacity, and improving the exchange of best practices and technical knowledge.
- Work on solutions for the final disposal of spent nuclear fuel
 - Commission should explore solutions with EU Member States
 - The 3 Member States should progress with their plans for final disposal
- Respect the polluter pays principle, with the 3 Member States recognising their own role and increasing the use of national funds
- The Commission should seek increases in national co-financing during the 2014-2020 financing period

Nuclear decommissioning assistance

Recommendations

- Discontinue dedicated funding programmes for nuclear decommissioning in Lithuania, Bulgaria and Slovakia after 2020, and if clear need for EU funds after 2020 is established, these should be time limited and based on appropriate levels of Member State co-financing
- The Commission should allow EU financing under the nuclear decommissioning assistance programmes to be used to finance only the costs of staff working fully on decommissioning activities.
- The Commission should complete its assessment of the ex ante conditionalities, thus improving Commission oversight.
- The Commission should work together with all relevant Member States so that all future costs associated with nuclear decommissioning and the final disposal of spent fuel are accounted for properly, in a transparent manner, consistent with relevant accounting standards.

The completion of the internal energy market

Improving the security of energy supply by developing the internal energy market: more efforts needed (Special Report 16/2015 (December 2015))

- **Audit objective**

- Determine whether implementation of internal energy market policy measures and EU spending on energy infrastructure have provided security of energy supply benefits effectively.

The completion of the internal energy market

Findings: market regulation

- The **EU's objective of completing the internal energy market by 2014 was not reached as:**
 - problems remain with the implementation of the EU legal framework for the internal energy market.
 - important differences in how Member States organise their energy markets can hold back the further development of the internal energy market.
 - though some progress in joining the patchwork of local, national and regional markets in Europe has been made, there remains a long way to go.

The completion of the internal energy market

Findings: energy infrastructure

- **Energy infrastructure in Europe is generally not yet designed for fully integrated markets** and therefore does not currently provide effective security of energy supply as:
 - the infrastructure within and between many Member States is not yet suited for the internal energy market;
 - there is no overall EU-level needs assessment to provide the basis for prioritising investments in EU energy infrastructure;
 - developing cross-border infrastructure requires cooperation amongst neighbouring Member States;
 - some of the existing infrastructure is not used to its full potential.

The completion of the internal energy market

Findings: EU financial support

- **Financial support from the EU budget in the field of energy infrastructure has made only a limited contribution** to the internal energy market and security of energy supply as:
 - the EU has several funding instruments to support energy infrastructure projects, but none have the internal energy market as a primary objective;
 - EU co-financed energy infrastructures have a limited impact on the internal energy market.

The completion of the internal energy market

Recommendations

- With the internal energy market not yet having been completed, the Commission should complete its assessments and open any necessary infringement procedures against Member States by the end of 2016, thus completing non-conformity checks.
- Member States should enhance the independence of National Regulatory Authorities (NRA) and assure that the Agency for Cooperation of Energy Regulators (ACER) has the necessary powers to obtain from key institutions in the Member States the information it needs to carry out the tasks assigned to it.
- The Commission should promote widespread development of transparent trading mechanisms for both gas and electricity.
- The Commission should expedite the process of comitology, with a view to securing approval of the electricity network codes by the end of 2015.

The completion of the internal energy market

Recommendations

- The Commission should work on market and infrastructure development models for electricity and gas, by establishing interconnection objectives for electricity and reassessing the potential costs and benefits of the gas target model.
- The Commission should promote the optimal use of the existing infrastructure, by identifying underused infrastructure, working with stakeholders in the Member States, and exploring the benefits for setting up regional transmission system operators (TSOs)
- The Commission should draw up a comprehensive EU-level infrastructure needs assessment.
- The Commission should refine its planning procedures and in particular the prioritisation and funding of projects of common interest (PCIs), in the light of a comprehensive EU-level energy infrastructure needs assessment
- The Commission should make legislative proposals on how to make its decisions to select energy infrastructure projects for funding subject to the proper and continuous functioning of the energy market in the Member States.

Coming soon

Look out for the publication of our

Landscape Review on EU Energy and Climate

Summer 2017

(<http://www.eca.europa.eu>)

Thank you!

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Use of Natural Resources**

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EUROPEAN COURT
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