2013

Annual Activity Report

Directorate-General for Energy

Foreword

Introductory message by the Director General

This Annual Activity Report covers the activities of the Commission's Director-General for Energy (DG ENER) for 2013. The purpose of this report is to give an outline of the operations of the DG and to help in understanding the different challenges that are faced.

Part 1 provides an overview of the policy achievements of the DG for 2013 and tries to give a flavour of the wide range of activities going on in the DG. Parts 2-4 give information on the management of the allocated resources as well as on the internal organisation of the DG.

Following my appointment as Director General of DG ENER on 01/01/2014, this report has been prepared based on the information available and gathered by my predecessor.

For more information on the activities of DG ENER, please visit our website:
http://ec.europa.eu/energy/index_en.htm

Dominique Ristori

Director-General of DG ENER

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INTRODUCTION

The DG in brief

Under the political guidance of Commissioner Günther H. Oettinger, the Directorate-General for Energy is responsible for developing and implementing a **European energy policy**. Until the end of 2013, DG ENER continued to be mainly a policy-making DG however also with spending activities.

Through the development and implementation of innovative policies, the Directorate-General aims at:

(a) Contributing to setting up an energy market providing citizens and business with affordable energy, competitive prices and technologically advanced energy services.

(b) Promoting sustainable energy production, transport and consumption in line with the EU 2020 targets and with a view to the 2050 decarbonisation objective.

(c) Enhancing the conditions for safe and secure energy supply in a spirit of solidarity between Member States ensuring a high degree of protection for European citizens.

In developing a European energy policy, the Directorate-General aims to support the Europe 2020 energy strategy which, for energy, is captured in the Energy 2020 strategy presented by the Commission in late 2010.

The Directorate-General carries out its tasks in many different ways. For example, it promotes the completion of the internal energy market; carries out energy market monitoring; supports the reinforcement of energy infrastructure, promotes tha exploitation of indigenous energy sources in safe and competitive conditions and the delivery by markets of agreed objectives, notably in efficiency and renewable energies; facilitates energy technology innovation; develops the most advanced legal framework for nuclear energy, covering safety, security and non-proliferation safeguards. Across all areas, it develops strategic analyses and short, medium and long term policies for the energy sector; monitors the implementation of existing EU law; encourages the exchange of best practices; provides information to stakeholders; and promotes and conducts an EU external energy policy.

The achievement of the Directorate General's policy objectives is supported by funding from the European Energy Programme for Recovery (EEPR), the Nuclear Decommissioning programmes, the Intelligent-Energy-Europe programmes (IEE), research and innovation through European Framework Programmes (FP6/FP7), Trans-European Energy Networks (TEN-E) as well as other support activities to the European energy policy and internal energy market.

In general the expenditure is managed directly, but the Directorate-General also relies on other services and entities for the implementation of parts of its budget and expert input for its activities:
- Executive Agency for Competitiveness and Innovation (EACI)[1]

[1] On 1 Jan. 2014, EACI was renamed to EASME (Executive agency for SMEs).

- Fuel Cells and Hydrogen Joint Undertaking (FCH JU)
- Central Project Management Agency in Lithuania (CPMA)
- Decentralised Agency for the Cooperation of Energy Regulators (ACER)
- Euratom Supply Agency (ESA).

The Directorate-General has joint management arrangements with the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and other international financial institutions for the implementation of some actions and innovative financial instruments.

The year in brief

2013 was a year of significant achievements in the energy policy field, against the priorities of the Europe 2020 strategy and the three general objectives of DG ENERGY, i.e. competitiveness, sustainability, and security of energy supply:

- **Presentation of a Green Paper on the 2030 Framework for Climate and Energy.**
- **Adoption of a Communication on 'Delivering the internal electricity market and making the most of public intervention'.**
- Concrete steps towards **the implementation of the key infrastructure projects through the agreement on the Connecting Europe Facility (CEF) and the adoption of the final list of 248 key energy infrastructure projects (PCIs)**.
- Presentation of a **Communication on Implementing the Energy Efficiency Directive including guidance for implementation**.
- Adoption by the Commission of a proposal for a **revised Nuclear Safety Directive.**
- Adoption of a **Consultative Communication on** '**The future of Carbon Capture and Storage (CCS)'.**
- Presentation of a **report on the state of implementation of the Communication on Security of Energy Supply and International Cooperation.**

As per 1st of January 2014, the Director-General of the DG changed: Mr Dominique Ristori succeeded to Mr Philip Lowe.

DG ENER was involved in the preparation of three spending programmes under the 2014-2020 MFF: Horizon 2020, Connecting Europe Facility (CEF) and Nuclear Decommissioning. For Horizon 2020, the lead DG, the Directorate General for Research and Technological Development (RTD) will report on this programme. For the CEF, led by the Directorate-General for Mobility and Transport (MOVE), ENER has successfully concluded the negotiations for the CEF-Energy. For the Nuclear Decommissioning the Council has adopted 2 Council Regulations on 13/12/2013, fixing the Union support for the nuclear decommissioning assistance programmes in Bulgaria, Lithuania and Slovakia for the period 2014-2020. The main difference with the Commission proposal is the changed legal base for Lithuania.

In 2013, DG ENER made commitments for €629.67 million and payments for €622.86 million, with execution rates being 95.40% and 90.01 % respectively. In 2013, 95% of ENER payments were made within the contractual deadline.

Executive Summary

The Annual Activity Report is a management report of the Director-General of DG ENER to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources and the achievement of objectives.

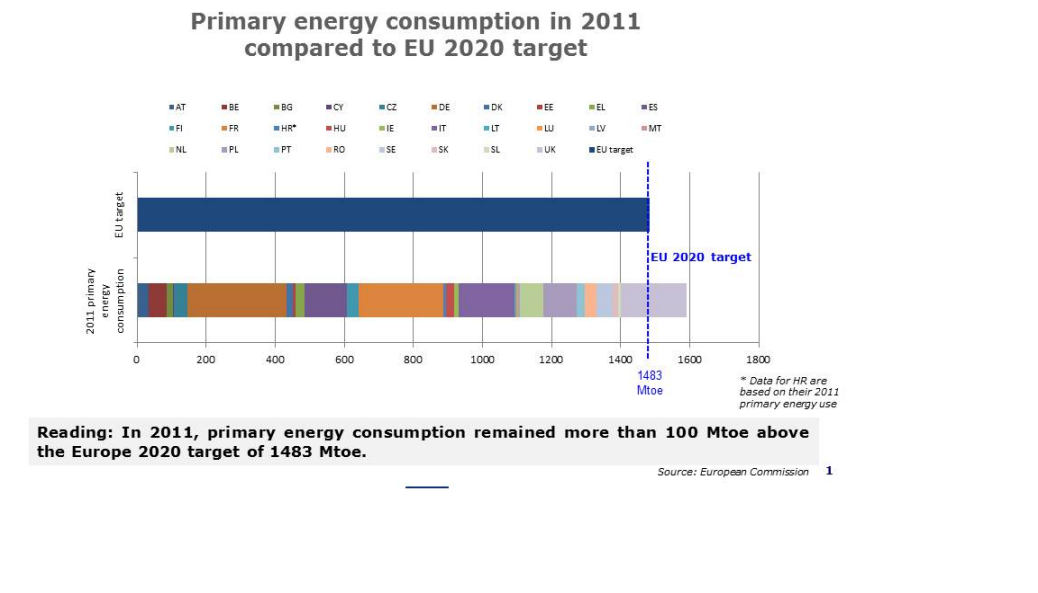
Key Performance Indicators (5 most relevant) [2]

Policy Area: Energy			☒**Spending programme and** ☒ **Non-spending**
Key Performance Indicator	Trend	Target (or milestone)	Latest known results as per Annual Activity Report Preferably in graphical format
Most relevant KPI 1 ***Energy efficiency and savings. Primary energy savings achieved in 2020 measured against the baseline (%)***[3] *(source: Article 3 of Directive 2012/27/EU)*[4] **General objective 2** ***To promote sustainable energy production, transport and consumption in line with the EU 2020 targets and with a view to the 2050 decarbonisation objective***	😐	2020 20% by 2020 (i.e. 1483 Mtoe primary energy and 1086 Mtoe final energy in 2020) Milestone mid-2014: Review of the progress towards the 2020 energy efficiency target.	**Progress in 2012: 14.6% (2011: 14.2%)**

[2] The KPIs will be reviewed in parallel with the further development of the 2030 climate and energy policy framework.

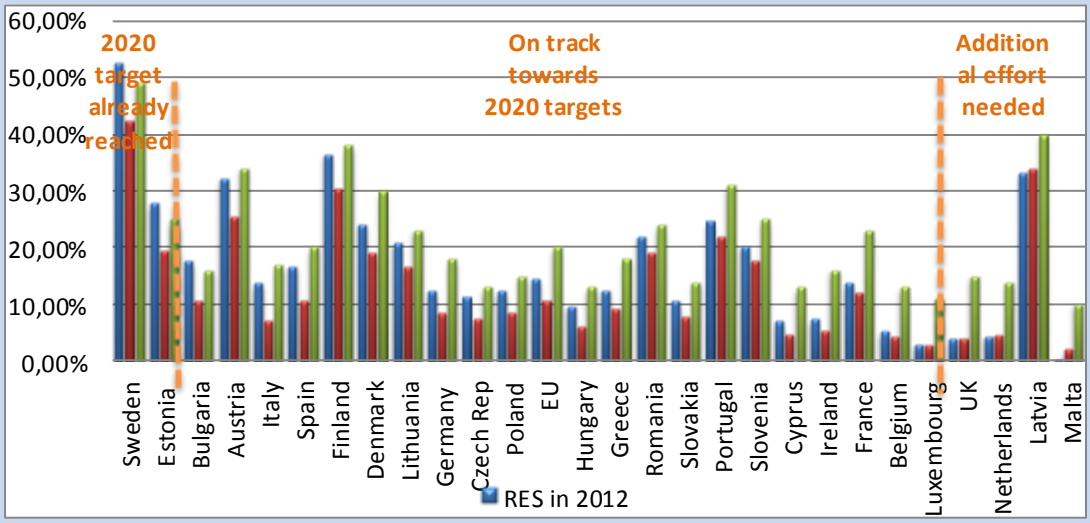
[3] Baseline is PRIMES 2007 in 2020, which includes policies to be implemented up to 2006 with an oil price of $61 per barrel and reference year 2005. Calculated as Gross Inland Consumption minus Final Non-Energy Use Consumption. Source: Eurostat, Commission studies.

[4] Baseline is PRIMES 2007 in 2020, which includes policies to be implemented up to 2006 with an oil price of $61 per barrel and reference year 2005. Calculated as Gross Inland Consumption minus Final Non-Energy Use Consumption. Source: Eurostat, Commission studies.



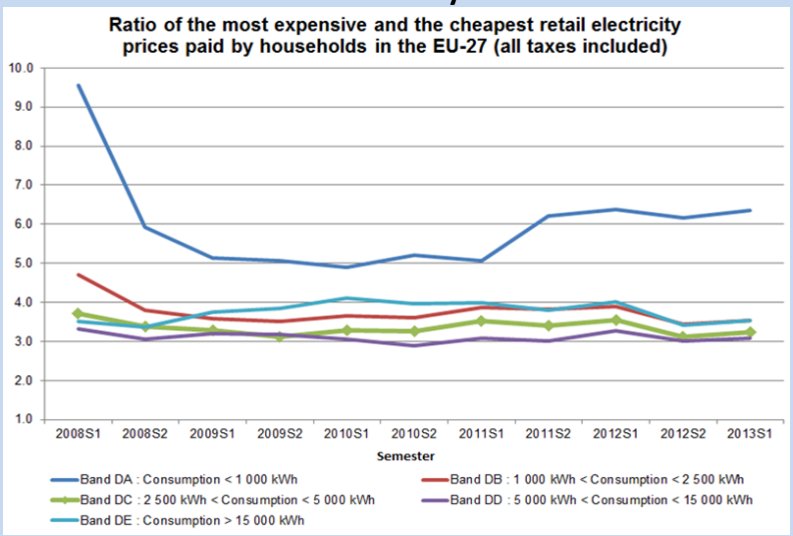
Most relevant KPI 2 ***Renewable energy share in final EU energy consumption (%)*** *(source: Annex 1b of Dir. 2009/28/EC)* **General objective 2** ***To promote sustainable energy production, transport and consumption in line with the EU 2020 targets and with a view to the 2050 decarbonisation objective***	☺	2020 20% by 2020 Trajectory with interim targets contained in Annex 1b of Dir. 2009/28/EC: 2011/2012: 10.8%; 2013/2014: 12%; 2015/2016: 13.7%; 2017/2018: 16%	**RES share in 2012: 14.1%**

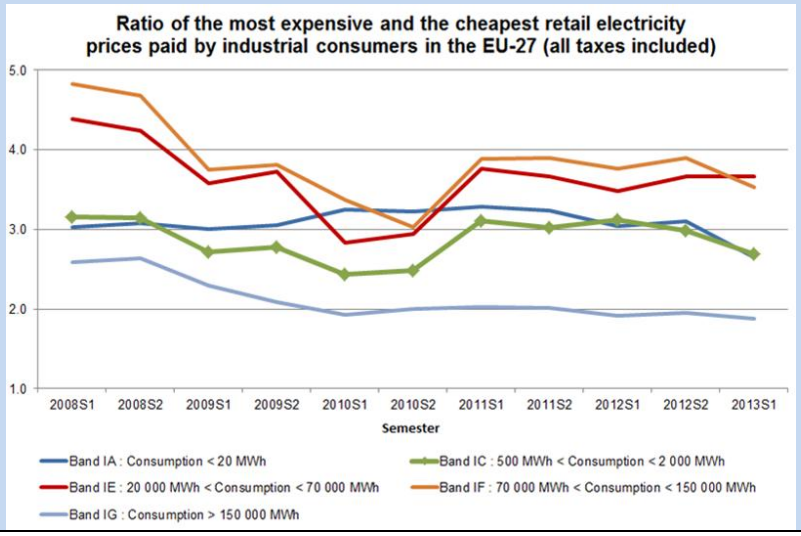
RES share of the final energy consumption (2012) and 2011 interim target EU and by MS



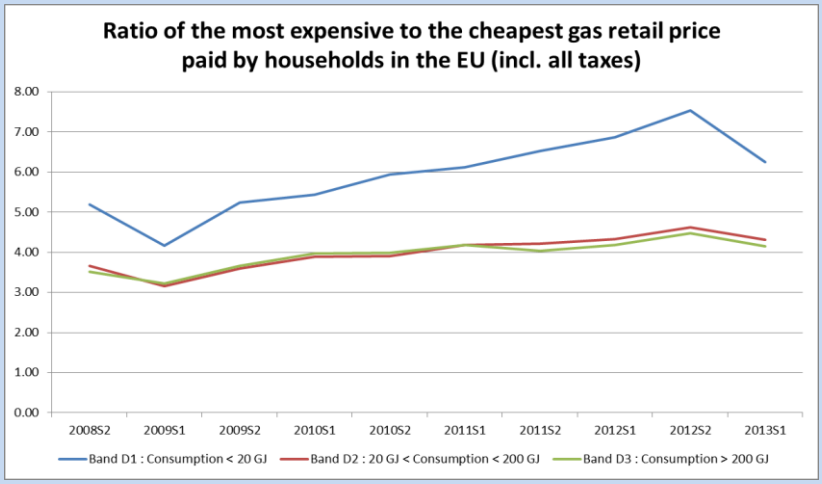
Most relevant KPI 3 ***Degree of energy price convergence in the EU (source: Eurostat)*** **General objective 1** ***To contribute to setting up an energy market providing citizens and business with affordable energy, competitive prices and technologically advanced energy services***	Electricity 😐 Gas 😐	2013 1:2	30/06/2013 **-Electricity: households: 1:2.95; industry: 1:2.95** (Prices of the first half of 2013 including all taxes) **-Gas: households: 1:4.3; industry: 1: 3** (Prices for the first half of 2013, incl. all taxes for households, excl. VAT and other recoverable taxes for industry)

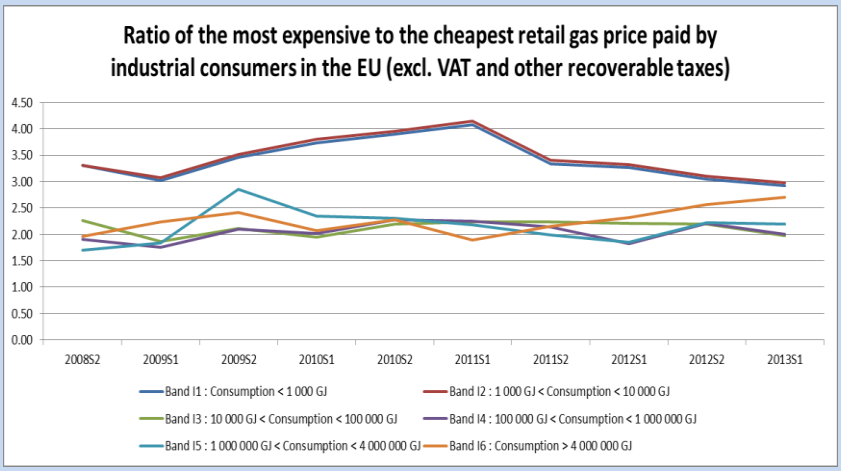
Electricity





Gas





Most relevant KPI 4 ***Number of major energy supply disruptions (source: MS data reported to DG ENER)*** **General objective 3** ***To enhance the conditions for secure energy supply in a spirit of solidarity between Member States***	☺	2013 0 Maintain each year 0 gas disruptions with cross-border impact Maintain each year 0 electricity blackouts with cross-border impact	2013: No disruptions of gas nor electricity reported in Member States

Most relevant KPI 5 ***% of payments made by the contractual deadline*** ***(source: DG ENER SRD.1)*** **Specific objective** ***Plan, perform, monitor and report on the spending of financial resources so that sound and regular management of them is assured throughout the DG's activities***	☺	>80 %	31/12/2013 : 95% 31/12/2012 : 97% 31/12/2011: 96%

Policy highlights of the year (executive summary of part I)

DG Energy's priority initiatives in 2013, as reflected by the above-mentioned 5 KPIs and by the other major DG policy achievements, were in line with the DG's Mission Statement, the priorities of the Energy 2020 Strategy and the Energy Roadmap 2050. The DG contributed to:

1. Building a truly pan-European integrated energy market providing citizens and business with affordable energy, competitive prices and technologically advanced energy services: In follow-up to the 2012 Communication on the Internal Market for Energy, a **Communication on "Delivering the internal electricity market and making the most of public intervention"** and its accompanying Staff Working Documents on generation adequacy, demand response, RES support schemes and cooperation mechanisms were adopted on the 5th of November 2013. At the same time, the establishment of the **first Union-wide list of PCIs** (14th of October 2013) allowed for the preparation of the implementation of the CEF – Energy as from 2014. Additionally, a proposal for a new legal base for the Regulation on the notification of investment projects in energy infrastructure within the European Union (20th of March 2013) was adopted on the 20th of February 2014.

2. Promoting sustainable energy production, transport and consumption in line with the EU 2020 targets and with a view to the 2050 Energy Roadmap: Based on the **Energy Roadmap 2050,** the Commission presented on the 27th of March a **Green Paper on the 2030 Framework for Climate and Energy** putting equal emphasis on competitiveness, sustainability and security of supply. Next to the guidance issued to help Members States reform RES support schemes, DG ENER continued to focus on the implementation and transposition of the Directive on the promotion of the use of energy from renewable sources (RED) in order to **facilitate an increase in the share of renewable energy** in overall energy consumption to 20% by 2020 in a cost-effective way. With regard to **achieving the 2020 target of 20% energy savings,** DG Energy supported Member States in effectively transposing and implementing the new Energy Efficiency Directive (EED) including through the adoption of a **Communication on implementing the EED**.

3. Achieving the highest level of safety and security of energy supply in a spirit of solidarity between Member States: the Commission adopted in 2013 a proposal for a **revised Nuclear Safety Directive** introducing EU-wide nuclear safety objectives and a European system of topical peer reviews (17th October 2013).

4. Extending European leadership in energy technology and innovation: Next to the adoption of a **Communication on energy technologies and innovation** setting out an EU energy technology strategy up to and beyond 2020 (2nd of May 2013), and the launching of the Horizon

2020 Research and Innovation Framework Programme providing over €5 billion for Secure, clean and efficient energy over the years 2014-2020 (3rd of December 2013), the Commission issued a **Consultative Communication** on **"The future of Carbon Capture and Storage (CCS)** in Europe" (27th of March 2013).

5. Strengthening the external dimension of the EU energy market: DG Energy pursued the reinforcement of Europe's external energy policy including through the presentation on the 13th of September 2013 of a **report on the state of implementation of the 2011 Communication on Security of Energy Supply and International Cooperation**.

Key conclusions on resource management and internal control effectiveness (executive summary on part 2 and 3)

In accordance with the governance statement of the European Commission, DG ENER conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The Director-General has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

DG ENER has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented. However, to adapt to future challenges, DG ENER will take measures to further improve the efficiency of its internal control systems in the area of Objectives and Performance Indicators and Evaluation of Activities, taking into account the Commission's commitment to further developing a performance-focused framework and in order to support efforts already underway in DG ENER.

In addition, DG ENER has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Parts 2 and 3 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by the reservation concerning the legality and regularity of FP7 payments. The reputational reservation on EEPR issued in the AAR 2012 was related to beneficiaries of EEPR contracts not respecting public procurement rules when subcontracting. The reservation is now lifted as the residual error rate is well below the materiality threshold of 2% and all the appropriate corrective measures have been put in place in 2013.

Information to the Commissioner

The main elements of this report and assurance declaration, including the reservation envisaged, have been brought to the attention of Commissioner Günther H. Oettinger, responsible for Energy.

1. POLICY ACHIEVEMENTS

1.1 Achievement of general and specific objectives

The DG ENER General Objectives and related Specific Objectives have been implemented according to plan.

Policy area Energy - General Objective 1: "To contribute to setting up an energy market providing citizens and business with affordable energy, competitive prices and technologically advanced energy services".

Policy area Energy - General Objective 2: "To promote sustainable energy production, transport and consumption in line with the EU 2020 targets and with a view to the 2050 decarbonisation objective".

Policy area Energy - General Objective 3: "To enhance the conditions for secure energy supply in a spirit of solidarity between Member States".

DG ENER General Objectives are **relevant for all the ABBs and Specific Objectives**. The General Objectives are implemented through **four "Activity-Based Budgeting" (ABB) activities**. Each of the four ENER ABBs activities specific objectives are set in detail below following the 2013 AAR template and with the result indicators to measure progress. Specific Objectives and Indicators, information on the long-term target, the current situation and the policy-related and expenditure-related output are also included.

1.1.1 AAB activity 1: Trans-European networks

In 2014, ABB 1 will be merged with ABB 2, in line with the MFF 2014-2020.

The DG ENER activities in the area of **ABB activity 1: Trans-European Networks** focused on energy infrastructure and efficiency, including the development and roll-out of smart grids, which have immediate environmental, economic and energy security benefits, including high job-creating and investment leverage potential.

By supporting the strengthening of European infrastructure, this activity made an important contribution to enhancing European competitiveness and cohesion and implementing the EU 2020 flagship initiative "Resource-efficient Europe", as well as the actions of the Single Market Act II relating to infrastructure.

In March 2009 the European Council called for a review of the TEN-E (Trans-European Network) framework. A new legal framework was adopted on 17 April 2013 and is applicable as of 1 July 2013 to replace the current TEN-E guidelines. It is complemented by the Regulation on the Connecting Europe Facility, which is applicable as of 1 January 2014 (under the Multiannual Financial Framework 2014-20) and provides the framework for Union's financial assistance to Projects of Common Interest identified through the TEN-E Guidelines. The CEF by combining three sectors under the umbrella of one infrastructure fund (transport, energy and telecommunication) should enable important economies of scale and synergies (administrative,

financial, visibility). These improvements will also be represented by **the merging in the 2014 AAR of the ABB activity 1 with ABB 2**.

<table>
<tr><td colspan="2">ABB activity 1: Trans-European Networks</td><td colspan="2">☒Spending programme</td></tr>
<tr><td rowspan="6">Specific objective 1
To facilitate investments in the infrastructure for electricity, gas, oil and CO2 transport needed for the completion of the internal energy market, connecting remaining energy islands[5], ensuring security of supply and integrating renewable energy sources.</td><td>Result indicator (description + source)</td><td>Target (long-term) (indicate the target-year)</td><td>Current situation (as achieved)</td></tr>
<tr><td>N° of PEI and PCI for electricity and gas finalised on schedule

[PEI – Projects of European Interest]

[PCI – Projects of Common Interest]

(source: Decision No 1364/2006/EC of 6 September 2006)</td><td>Implementation of 32 PEI out of 164 PCI projects in the electricity sector and 10 PEI out of 122 PCI projects for gas.

[the Decision does not give a target year]</td><td>An update of the projects was expected for the two yearly report initially foreseen for the spring 2013. This report is now foreseen to be published with the Internal Market Communication in May 2014.
15/03/2010: source two-yearly TEN-E implementation report
Electricity: 5 PEI; 12 PEI on schedule
Gas: 2 PEI finalised; 3 PEI on schedule
31/12/2008:
Electricity: 7 PEI, 3 PCI on schedule. I PCI finalised
Gas: 2 PEI
31/12/2007
Electricity: 4 PEI, 3 PCI on schedule.
Gas: 1 PCI finalised, 2 under construction, 2 partially under construction</td></tr>
<tr><td colspan="3">Main policy outputs</td></tr>
<tr><td colspan="2">Policy-related</td><td>Expenditure-related</td></tr>
<tr><td colspan="2">TEN-E Award Decision adopted on 11.11.2013.</td><td rowspan="4">TEN-E Programme:

2013 budget: 20 million € implemented through the annual call and pilot project bonds initiative</td></tr>
<tr><td colspan="2">Commission delegated Regulation amending Regulation (EU) No 347/2013 of the European Parliament and of the Council on guidelines for trans-European energy infrastructure as regards the Union list of projects of common interest adopted on 14.10.2013</td></tr>
<tr><td colspan="2">Report on TEN-E implementation 2007-2013 and follow-up of the infrastructure 2010 Communication postponed to May 2014.</td></tr>
<tr><td colspan="2">Adoption and implementation of 19 Commission Decisions following the Call 2012 from July to December 2013.</td></tr>
</table>

[5] European Council conclusions February 2011: "No EU Member State should remain isolated from the European gas and electricity networks after 2015 or see its energy security jeopardized by lack of the appropriate connections.

1.1.2 ABB activity 2: Conventional and renewable energy

Based on the discussion of concepts presented in the Energy Roadmap 2050 (2011)6 the Commission presented on the 27th of March 2013 a "Green Paper on 2030 Framework for Climate and Energy policies" putting equal emphasis on competitiveness, sustainability and security of supply. The Green Paper launched a public consultation on the 2030 framework that lasted until 2 July 2013. The Impact Assessment on the 2030 framework was completed in December 2013. Other preparatory works were well advanced for the adoption of the 2030 climate and energy package in January 2014.

Considerable progress was achieved in developing the internal energy market both at retail and wholesale level in 2013. On 5 November 2013, the Commission issued Guidance to Member States on state intervention in electricity markets. Additionally, Commission Decision was issued 21 August 2013 on the establishment of the annual priority lists for the development of network codes and guidelines for 2014. The Directorate General continued work on network codes and guidelines in cooperation with ACER7, and the European Networks of Transmission System Operators (ENTSO). On 8 May 2013, the Commission adopted a Staff Working document on the Commission's practice in assessing the presence of a conflict of interest in case of financial investors and ownership unbundling.

The Commission completed the negotiations on the Offshore Safety Directive and ensured its adoption as Directive 2013/30/EU of the European Parliament and of the Council of 12 June 2013 on safety of offshore oil and gas operations. There was continued growth in the membership of the Covenant of Mayors, and the organization of the Covenant of Mayors' signing ceremony in June 2013 was successful8. The conclusion of the work of Vulnerable Consumers' Working Group and the completion of its report on addressing energy consumers' vulnerability and energy poverty in the EU was a highlight of the successful Citizens' Energy (London) Forum on 16-17 December.

The Member States have progressed with implementing key Directives in the field of the Internal Market, Energy Efficiency and Renewable Energy9. Guidance was published in November to help Member States reform RES support schemes and to facilitate the use of the cooperation mechanisms outlined in the Directive.

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[6] An Evaluation was performed in 2013 on the employment effects for selected scenarios of the energy roadmap 2050 (see Annex 9).

[7] An Evaluation was performed in 2013 on the Regulation 713/2009 – Art. 34 - ACER's Performance (Commission Evaluation of the activities of ACER). More details are provided in Annex 9.

[8] The Mid-term Evaluation performed in 2013 on the Covenant and presented in detail in Annex 9 demonstrates the Covenant of Mayors provides signatories with strong added value.

[9] An Evaluation study has been launched in 2013 on the 2014 Progress report on renewable energy and sustainability of biofuels (Directive 2009/28) and Mid-term evaluation of the Renewable energy directive and its results will contribute to the forthcoming 2014 Commission report on Renewable energy progress and sustainability of biofuels. More details are provided in Annex 9.

Key achievements undertaken to contribute to a consistent EU external action on energy include the implementation of the 43 priorities of the Communication on Security of Energy Supply and International Cooperation (13 September 2013 implementation report), continued development of the relations with Russia, the stimulation of the of the Southern Gas Corridor where significant progress was made in 2013, and the strengthening of Energy cooperation with the Southern Mediterranean region.

<table>
<tr><td colspan="3">ABB activity 2: Conventional and renewable energy</td><td>☒Spending programme
☒ Non- spending</td></tr>
<tr><td rowspan="5">Specific objective 1
To shape a long-term vision and strategy for the energy system, post 2020.
☒Non-spending programme</td><td>Result indicator (description + source)</td><td>Target (long-term)</td><td>Current situation (as achieved)</td></tr>
<tr><td>Progress made in reaching political consensus on the medium to long term objectives of EU energy policy.)
(source: DG ENER A1 analysis)</td><td>Political agreement on the framework for EU energy policy for 2030.</td><td>Energy Roadmap 2050 (2011)</td></tr>
<tr><td colspan="3">Main policy outputs</td></tr>
<tr><td colspan="2">Policy-related</td><td>Expenditure-related</td></tr>
<tr><td colspan="2">On 27 March 2013, the European Commission adopted a Green Paper on "A 2030 framework for climate and energy policies". This document launched a public consultation lasting until 2 July, with more than 550 replies from stakeholders received.</td><td></td></tr>
<tr><td rowspan="2">Specific objective 2
To contribute to the completion of the internal energy market both at retail and wholesale level by removing barriers to competition</td><td>Result indicator (description + source)</td><td>Target (long-term)</td><td>Current situation (as achieved)</td></tr>
<tr><td></td><td></td><td></td></tr>
</table>

and cross-border trade and establishing a European framework for effective and efficient operation of networks and markets. **☒Non-spending programme**	(1) Number of markets coupled (2) Number of TSOs certified as unbundled (Commission opinion adopted) (3) Number of EU wide network codes adopted (4) Number of Member States with at least 3 significant electricity/gas suppliers (with more than 5% market share each) **(source: DG ENER B2 analysis)**	(1) 26 MS should be coupled by the end of 2014, coupling of MT is dependent on the cable project to Italy. For CY no connection is foreseen yet. (2) all TSOs (120 in total) certified by end 2014 (3) 9 EU wide network codes (codes and guidelines) adopted by end of 2014 (4) 28 MS should have at least 3 significant electricity/ and gas suppliers by 2014	**End 2013:** (1) 21 MS have introduced market coupling at least on one of their borders (source, market monitoring). (2) 79 TSOs certified (Commission opinions adopted); 2 certifications in process (notified by (RO and ES). (3) In 8 Member States more than 70% of power generation is still controlled by the historic incumbent. Particularly high concentration (with a market share above 75%) in EE, LV, FR, LU and SK. Lowest market share of the largest generation company at national level: PL and ES. (4) **Electricity:** In 26 out of 28 MS at least 3 electricity suppliers. In 2013 markedly increase in competition and end of incumbents' monopoly due to retail price deregulation (EE, HRO). **Gas:** In several MS no or limited competition for household customers despite possibility to switch between suppliers. Retail: the market share of the incumbent in the capital is a useful indicator, as the markets are often to be defined regionally, due to regional incumbents/monopoly. Figures above 90 % for the largest retail company: BG, RO, LT, PL EE, PT. Relative small market penetration for the largest retail company on national level (below 30%) : DE, HU, IT. Gas markets inexistent in a number of MS (MT, CY) or of minor importance, covering only a small part of the households and commercial customers (less than 10% households in EL, BG, EE, FI, SE).

<table>
<tr><td></td><td colspan="3">Main policy outputs</td></tr>
<tr><td></td><td colspan="2">Policy-related</td><td>Expenditure-related</td></tr>
<tr><td></td><td colspan="2">A framework for national interventions in the energy sector was published in November 2013.</td><td rowspan="2"></td></tr>
<tr><td></td><td colspan="2">Multiple actions on establishment of electricity and gas Network codes and Guidelines (7 Network Codes were recommended for adoption to DG ENER by ACER, 2 were adopted in the relevant Member State Comitology Committee, one Network Code and one Guideline were adopted by the Commission, negotiations on other NCs ongoing).</td></tr>
<tr><td></td><td colspan="2">A draft proposal of the REMIT implementing rules on data reporting was discussed during the first meeting of the REMIT Implementing Rules comitology Committee on 20th December 2013.</td><td></td></tr>
<tr><td rowspan="5">Specific objective 3
To create a framework that stimulates the development of smart grids and the roll-out of smart meters.

☒Non-spending programme</td><td>Result indicator (description + source)</td><td>Target (long-term)</td><td>Current situation (as achieved)</td></tr>
<tr><td>Number of MS having completed cost-benefit analysis as required in the 3rd package
(source: DG ENER B3)</td><td>Target: 24 MS</td><td>31/12/2013: 21 MS completed a CBA out of the 24 expected – excluding Croatia</td></tr>
<tr><td>Proportion of households with smart meters installed
(source: Directive 2009/72/EC concerning common rules for the internal market in electricity, DG ENER B3)</td><td>By 2020, 40% for gas and 72% for electricity</td><td>31/12/2013: Based on figures provided by MS, 17% of all consumers now have access to a smart meter</td></tr>
<tr><td colspan="3">Main policy outputs</td></tr>
<tr><td colspan="2">Policy-related</td><td>Expenditure-related</td></tr>
<tr><td colspan="2">N/A.</td><td></td></tr>
<tr><td></td><td>Result indicator (description + source)</td><td>Target (long-term)</td><td>Current situation (as achieved)</td></tr>
</table>

<table>
<tr><td rowspan="5">Specific objective 4
To stimulate investments in the European energy sector, contributing to economic growth and job creation

☒Non-spending programme</td><td>Number of completed interconnection projects
(source: DG ENER B1)</td><td>By 2015: Completion of the implementation of 37 (out of 39) projects
Final target: 44 Commission decisions and subsequent implementation of 43 projects [four grant decisions will be terminated in 2014: Galsi, Nabucco, Poseidon, Reverse Flow RO]</td><td>End of 2013:
25 projects technically completed. 44 Commission decisions notified covering 43 projects, all started.</td></tr>
<tr><td>Number of completed carbon capture and storage (CCS) demonstration projects
(source: DG ENER C2)</td><td>At least one Final Investment Decision (FID) in 2013.</td><td>End of 2013, of the 6 CCS projects:
- 1 terminated in 2012,
- 2 terminated in 2013,
- 1 (negative) FID taken in 2013,
- 2 ongoing, no FID yet.</td></tr>
<tr><td>Number of completed off shore wind (OWE) projects
(source: DG ENER C2)</td><td>At least one Final Investment Decision (FID) on EEPR wind grid projects in 2013.</td><td>End of 2013, of the 9 OWE projects:
- 3 EEPR Actions are completed.
- For 1 project, the EC and the coordinator agreed to terminate the grant agreement.
- FID has been taken for 5 EEPR OWE projects, including for 1 EEPR wind grid project in 2013.</td></tr>
<tr><td colspan="3">Main policy outputs</td></tr>
<tr><td colspan="2">Policy-related</td><td>Expenditure-related</td></tr>
<tr><td colspan="2">Annual Report on the implementation of the European Energy Programme for Recovery adopted on 18.11.2013.

Council Regulation concerning the notification to the Commission of investment projects in energy infrastructure within the European Union adopted on 20.03.2013</td><td>Offshore wind energy: A total of € 565 million has been committed for expenditure on 9 projects, selected under the European Energy Programme for Recovery, on the basis of individual grant agreements, and payments executed accordingly.
CCS: On-going implementation of 3 and termination of 2 projects and execution of payments within the framework of a total commitment of € 820m.
Interconnections: total of 2,267,574,463€ has been committed for expenditure on 43 infrastructure projects, selected under the European Energy Programme for Recovery.</td></tr>
<tr><td>Specific objective 5
To create a framework</td><td>Result indicator (description + source)</td><td>Target (long-term)</td><td>Current situation (as achieved)</td></tr>
</table>

that protects energy consumers and helps to empower them to effectively exercise choice with respect to energy supply contracts and arrangements and to actively control their energy consumption and energy bills. ☒**Non-spending programme**	Number of suppliers of electricity and gas for consumers **(measured at national level)** **(source: regulators, DG ENER B3).**	31/12/2013: At least 3 suppliers for consumers	31/12/2013: At least 3 suppliers for consumers; 2012: In 25 Member States at least 3 suppliers in electricity and in 24 Member States at least 3 gas suppliers. **Electricity**: In 26 out of 28 MS at least 3 electricity suppliers. In 2013 marked increase in competition and end of incumbents' monopoly due to retail price deregulation (EE and HRO). **Gas:** In several MS no or limited competition for household customers despite possibility to switch between suppliers. 2013: undergoing further check in the framework of the revision of the Country Reports.
	Number of MS with completed transposition of consumer-related provisions in the 3rd package **(source: DG ENER B3)** and Number of complaints based on Art 13 (metering & billing) of the Energy Services Directive (ESD) & number of MS to transpose by 5.6.2014 Articles 9-11 of the Energy Efficiency Directive (**source: DG ENER C3)**	27 MS compliant by complete transposition of both electricity and gas by 2014 No further complaints under the ESD. 28 Member States notified full transposition of the EED.	31/12/2013: 3 pending cases for partial non-transposition before the Court against Slovenia, Estonia and Romania for both el. and gas. Ireland to be referred to Court for partial non-transposition in the February cycle. 30/10/2012: Full transposition notified by 20 Member States for both electricity and gas. Complaints about metering and billing against 4 MS. Partial transposition of EED declared by 12 MS, full transposition by one.
	Main policy outputs		
	Policy-related		*Expenditure-related*
	Guidance document on Definition and Protection of Vulnerable Consumers		
	Vulnerable Consumer Working Group Guidance Document on Vulnerable Consumers, November 2013		
Specific objectives 6 and 7	**Result indicator (description + source)**	**Target (long-term)**	**Current situation (as achieved)**

To facilitate an increase in the share of renewable energy in overall energy consumption of 20% by 2020 through a common framework based on mandatory targets. To put in place framework measures that will permit the achievement of the higher shares of renewable energy after 2020. ☒**Non-spending programme**	% of renewable electricity in total EU electricity consumption (measurement unit % TWh renewable / TWh total EU) **(source: Eurostat, Member States, ENER C1)**	31/12/2012: 22%[10]	2012: 23.5%
	Share of renewables in total EU energy consumption for transport (Measurement unit: %) **(source: national reports under the biofuels directive, ENER C1)**	6% by 2012[11] 10% by 2020	2012: 5,1%
	Main policy outputs		
	Policy-related		*Expenditure-related*
	Technical follow-up to RES Communication: 1) Guidance on support schemes and support scheme reform and 2) Guidance on the use of the co-operation mechanisms of Directive 2009/28/EC adopted on 5.11.2013 accompanying the Commission Communication C(2013) 7243 delivering the internal electricity market and making the most of public intervention.		
	1st Report on Progress on Renewable Energy in the Member States (as required by Article 23.3 of Directive 2009/28/EC) adopted on 27.03.2013.		
	Adopted a Commission Decision of 01/03/2013 establishing guidelines for Member States on calculating renewable energy from heat pumps from different heat pump technologies pursuant to Article 5 of Directive 2009/28/EC. This was a requirement set out in annex VII of the Renewable Energy Directive.		
	Commission Implementing Decision of 30 May 2013 on recognition of the 'Biograce GHG calculation tool' for demonstrating compliance with the sustainability criteria under Directives 98/70/EC and 2009/28/EC of the European Parliament and of the Council.		

Specific objective 8	**Result indicator (description + source)**	**Target (long-term)**	**Current situation (as achieved)**

[10] "expected" as indicated through national renewable energy action plans

[11] "expected" as indicated through national renewable energy action plans

To facilitate a 20 % reduction of energy consumption compared to PRIMES 2007 projections for 2020 – with underlying changes in the state of the economy taken into account - through policy measures promoting energy efficiency particularly in the energy, residential and services sectors and industry. ☒**Non-spending programme**	Member States deliver national energy efficiency targets for 2020 in the framework of the Europe 2020 strategy **(source: DG ENER C3)**	All MS to report on their national indicative energy efficiency targets for 2020 by 30 April 2013 as required by Article 3 of Directive 2012/27/EU. All MS to submit their energy efficiency obligation scheme plans (or alternative measures) by 5.12.2013 as required by Art 7 of EED.	2013: 28 Member States provided information on their indicative national 2020 targets. These translate to 305 Mtoe of primary energy savings compared to 2020 primary energy consumption projections. With this level of ambition, the EU in 2020 would reach only 16.5 % of the EU primary energy target. Full transposition of the Energy Efficiency Directive (2012/27/EU) together with the measures in the Transport White paper of March 2011 is expected to contribute to a reduction of the gap. In the Impact Assessment 2014 it will be analysed if further EU action is needed to close the gap.
	Degree to which legislative acts and additional 'soft-law' instruments in follow-up to the March 2011 Energy Efficiency Plan address the remaining cost-effective potential in all supply and demand side sectors **(source: DG ENER C3)**	Comprehensive policy framework should be in place at Member States level to realise the remaining cost-effective savings potential in 2020. Implementation of the Energy Efficiency Directive is expected to significantly contribute to the target.	Number of policy tools available to trigger energy efficiency improvements: 2013 – Member States had to submit their indicative energy efficiency targets: all indicative targets submitted.
	Number of Member States with completed transposition of the Energy Performance of Buildings Directive and national progress towards the target for nearly zero-energy buildings in 2020 **(source: DG ENER C3)**	Closure of ongoing non-communication infringement procedures. 28 Member States compliant by complete transposition of the EPBD by 2014, which if properly implemented is expected to result in 5-6% saving of the EU's total energy consumption by 2020	By September 2013: the Commission had launched 27 non-communication infringement procedures of which 22 were at Reasoned Opinion stage. As regards nearly-zero energy buildings ('NZEBs'), little progress has been made by the Member States in their preparations towards NZEBs by 2020

	Cumulative reductions of primary energy consumption triggered by the regulatory measures on the energy efficiency of products. **(source: Ecodesign/Energy Labelling measures impact assessments)**	Adopt new implementing measures finishing the ecodesign work programme and ensure proper implementation. The measures adopted In 2013 amounted to a reduction of 334 TWh by 2020.	31/12/2013: about 760 TWh in 2020[12].
	Planned energy saving targets for 2020 based on the Sustainable Energy Action Plans implemented by the Signatory cities and regions of the Covenant of Mayors **(source: DG ENER B3)**	Average reduction: 28.61% by 2020 (300 million tons calculated equivalent)	By end of 2013: 3300 Action Plans submitted with a planned average CO2 emission reduction of 29%.

Main policy outputs	
Policy-related	*Expenditure-related*
Implementing measure on eco-design requirements for space and combi heaters adopted on 2.8.2013	
Implementing measure on eco-design requirements for water heaters adopted on adopted on 2.8.2013	
Supplementing measure on energy labelling of space and combi heaters adopted on 18.2.2013	
Supplementing measure on energy labelling of water heaters adopted on 18.2.2013	
Implementing measure on eco-design requirements for vacuum cleaners adopted on 8.7.2013	
Supplementing measure on energy labelling of vacuum cleaners adopted on 3.5.2013	
Implementing measure on eco-design requirements for networked standby adopted on 22.8.2013	
Voluntary agreement with industry on ecodesign requirements for imaging equipment. Report adopted on 29.1.2013	
Mid-term evaluation report of the European Energy Efficiency Fund adopted as a part of the EEPR Report on 18 November 2013.[13]	
Commission Communication on Implementing the Energy Efficiency Directive – Commission Guidance adopted on 6.11.2013	

[12] Annual savings in final energy by 2020, calculated according to the Methodology for the Ecodesign of Energy-related products (MEErP).

[13] An Evaluation was performed in 2013 on the European Energy Programme for Recovery (EEPR) - Amending regulation 1233/2010 establishing a European Energy Efficiency Fund (EEE F) (see Annex 9).

	Guidance to the implementation of Energy Efficiency Directive : central government buildings adopted on 6.11.2013	
	Report on progress by Member States towards increasing the number of nearly zero-energy buildings adopted on 18.04.2013	
	Guidance for the implementation of Energy Efficiency Directive : audit and energy management systems adopted on 6.11.2013	
	Guidance for the implementation of Energy Efficiency Directive : energy efficiency obligation schemes adopted on 6.11.2013	
	Guidance for the implementation of Energy Efficiency Directive : CHP and district heating adopted on 6.11.2013	
	Guidance for the implementation of Energy Efficiency Directive : grids and demand response issues adopted on 6.11.2013	
	Guidance on the implementation of Energy Efficiency Directive : public procurement adopted on 6.11.2013	
	Guidance for the implementation of Energy Efficiency Directive : metering and billing adopted on 6.11.2013	
	Report on progress by Member States towards increasing the number of nearly zero-energy buildings adopted on 18.04.2013	

Specific objective 9 To support projects promoting renewables and increasing energy efficiency in different sectors of the economy including transport, through addressing the non-technological barriers and involving local actors (Intelligent Energy Europe Programme) ☒ **Spending programme**	**Result indicator (description + source)**	**Target (long-term)**	**Current situation (as achieved)**
	Cumulative investment made by European stakeholders in sustainable energy triggered by IEE programme (measurement unit EUR) **(source: Intelligent Energy Europe Programme II, DG ENER C3).**	31/12/2013: EUR 2 billion	Cumulative investment made by European stakeholders in sustainable energy triggered by IEE programme (measurement unit EUR). 31/12/2013: EUR 2293 million.
	Additional annual renewable energy production triggered by actions supported by IEE programme. (measurement unit toe) **(source: Intelligent Energy Europe Programme II, DG ENER C3).**	Increase	Additional annual renewable energy production triggered by actions supported by IEE. programme (measurement unit toe). 31/12/2013: >50 000 toe/year
	Additional annual energy savings triggered by the actions supported by IEE programme (measurement unit toe) **(source: Intelligent Energy Europe Programme II, DG ENER C3).**	Increase	Additional annual energy savings triggered by the actions supported by IEE programme (measurement unit toe). 31/12/2013: > 90 000toe/year
	Additional annual reductions of greenhouse gas emissions triggered by the actions supported by IEE programme (measurement unit CO2e) **(source: Intelligent Energy Europe Programme II, DG ENER C3).**	Increase	Additional annual reductions of greenhouse gas emissions triggered by the actions supported by IEE programme (measurement unit CO2e). 31/12/2013: >500 000 tCO2e/y.
	Main policy outputs		

	Policy-related	*Expenditure-related*	
	A Communication setting out the key role of Energy Technologies and Innovation adopted on 2.05.2013.	2013 IEE budget (commitment appropriations) amounts to EUR 146.39 million (including EFTA and 3rd countries contributions from 2013 and contributions left over from previous years) (the share of EASME is EUR 92.58million), distributed as follows: - EUR 80.02 million € is earmarked for funding promotion and dissemination projects (executed by the Executive Agency for Competitiveness and Innovation) in the areas of: STEER, ALTENER, SAVE and Integrated initiatives. - EUR 35 million is earmarked for the continuation of the European Local Energy Assistance facility (ELENA) in cooperation with the European Investment Bank (EIB), the KfW and the European Bank for Reconstruction and Development (EBRD); - EUR 16.21 million cover actions of a strategic nature (such as preparatory studies for energy efficiency and renewable energy policy initiatives or technical assistance for the implementation and monitoring of the recent and forthcoming legislation) as well as membership of IRENA[1] and IPEEC[2][3]. - EUR 9.03 million has been allocated for Concerted Actions supporting the transposition and implementation of the Renewable Energy Sources and Energy Efficiency Directives - EUR 3.147 million is for initiatives to develop standards required for implementing the energy efficiency and renewable energy legislation and related EC policies to be prepared by CEN/CENELEC. - EUR 2.99 million has been provided as contribution to ACER.	
Specific objective 10 To contribute to solidarity and coordinated actions to prevent and mitigate the consequences of supply disruptions in gas and	**Result indicator[14] (description + source)**	**Target (long-term)**	**Current situation (as achieved)**
	Level of emergency oil stocks (in days of net imports) **(source: Member States, DG ENER A4)**	By 31/12/2012: At least 90 days (at any time)	98 days. Date: 31/10/2013. Source: data reported by MS in the MOS questionnaire

[14] As mentioned in the Management Plan 2013, result indicators were revised from in line with the new oil stocks directive (2009/119/EC).

electricity, crude oil and petroleum products ☒**Non-spending programme**	Number of MS not fulfilling their overall stockholding obligation (90 days of net imports or 61 days of consumption, whichever is higher; derogation: until the end of 2014 and for non-IEA MS with no domestic production of petroleum products, the obligation is 81 days of net imports) **(source: Member States, DG ENER A4)**	By 31/12/2012: 0 Member States	At 31/10/2013: 3 Member States
	N° of Member states fulfilling N-1 standard for gas networks as required by regulation 994/2010 [15] **(Source: Regulation 994/2010, DG ENER B2)**	Full compliance with Regulation by 31/12/2014	2013: Number of Member States having carried out Risk Assessment: 25 (2 exemptions, 1 missing from CRO). N-1 currently fulfilled by Member States (ddl is Dec. 2014, 5 exemptions): 18. Number of Member States having notified their adopted Preventive Action Plan (2 exemptions + 3missing (CRO, RO, SI): 23 (ddl for adoption of Plans was Dec. 2012). Number of Member States having notified their Emergency Plans (2 exemptions 3 missing (CRO, RO, SI)): 23 (ddl for adoption of Plans was Dec. 2012). Number of ICs for which reverse flow assessment has been carried out: 100% of all notifications.
	Main policy outputs		
	Policy-related		*Expenditure-related*
	N/A		
Specific objective 11 To promote	**Result indicator (description + source)**	**Target (long-term)**	**Current situation (as achieved)**

[15] N-1 standard : The gas network has to be able to compensate for the fall-out of the largest gas infrastructure

best industry and regulatory practices and standards in the exploration and production, including offshore, of indigenous fossil fuels. ☒**Non-spending programme**	Number of fatalities/major injuries (potentially also per million hours worked) on oil and gas offshore installations **(source: ENER B3)**	By 2015: 10% reduction for the period 2012-2015	Comparable EU wide data not yet available, subject to a common reporting format to be introduced as a follow-up of the adoption of the Directive on Offshore Safety (2013/30/EU) of 12 June 2013.
	Mass/volume of accidental hydrocarbon releases into sea or atmosphere (in BOE/kg) **(source: ENER B3)**	By 2015: 10 % reduction for the period 2012-2015	Comparable EU wide data not yet available, subject to a common reporting format to be introduced as a follow-up of the adoption of the Directive on Offshore Safety (2013/30/EU) of 12 June 2013.
	Number of major collisions/fires on installations **(source: ENER B3)**	By 2015: 1 or less per 100 installations	Comparable EU wide data not yet available, subject to a common reporting format to be introduced as a follow-up of the adoption of the Directive on Offshore Safety (2013/30/EU) of 12 June 2013.
	Main policy outputs		
	Policy-related	*Expenditure-related*	
	Adoption of the Directive on Offshore Safety (2013/30/EU) of 12 June 2013.		

Specific objective 12 To contribute to a consistent EU external action on energy that strengthens partnerships for secure, safe, sustainable	**Result indicator (description + source)**	**Target (long-term)**	**Current situation (as achieved)**
	% compliance of legislation in Contracting Parties to Energy Community Treaty complying with the EU acquis **(source: assessment based on regular reports established by the ECT secretariat, DG ENER B2)**	90	31/12/2013: 85

and competitive energy, builds up the external dimension of the internal energy market, improves access to sustainable energy for developing countries and better promotes EU policies beyond its borders, notably with neighbouring countries. **☒Non-spending programme**	Progress on the implementation of the 43 actions proposed in the Communication: "Security of Supply and International Cooperation – The EU Energy Policy engaging with partners beyond our borders" **(source: the Commission Communication, DG ENER A3)**	Launching or concrete step forward for one third of the 43 actions proposed in the Communication by end 2013.	31/12/2013: Further to the adoption of the Communication in September 2011 more than one third of the proposed actions were either implemented or have made a concrete step forward and are still ongoing (see Commission report "Implementation of the Communication on Security of Energy Supply and International Cooperation and of the Energy Council Conclusions of November 2011" (COM(2013) 638 of 13/09/2013).
	Notification of all existing IGAs (Inter- Governmental Agreements) as defined in regulation 994/2010 by Member states, and via the Decision on information exchange on Intergovernmental Agreements (IGAs), adopted on 7 September " **(source: assessment based on regular reports established by the ECT secretariat, DG ENER B2)**	31/12/2012: 100 % notification rate by Member states The entry into force of the Decision is 16 November 2012 and MS have to notify within three months. By mid-2013 all existing IGAs must be notified.	2013: Under Art. 13.6 a) of the Regulation 994/2010 all MS have notified their IGAs. Existing IGAs received from Member States during spring 2013; due to Commission doubts on legality letters were sent to 9 MS concerning 15 IGA in August 2013.

Main policy outputs	
Policy-related	*Expenditure-related*
Electricity Agreement with Switzerland: as a result of monthly technical negotiation meetings significant progress was made towards reaching an agreement on all technical issues in early 2014. However, such an agreement will be dependent on the success of a horizontal institutional agreement negotiated for the EU by the EEAS.	
Intergovernmental Agreement with Russia and Belarus on the operation of the electricity networks in the Baltic States. Progress was made during first half of 2013. Negotiations suspended in Q4 at the request of the Baltic States.	
Report from the Commission on the state of implementation of the 2011 Communication on Security of energy supply and International Cooperation and in particular the 43 actions proposed in the Communication adopted on 13.09.2013.	

1.1.3 ABB activity 3: Nuclear energy

A number of important measures were undertaken in 2013 in the area of nuclear energy policy:

The Commission adopted its formal proposal COM (2013) 715 on 17 October 2013 amending Council Directive 2009/71/EURATOM establishing a community framework for the nuclear safety of nuclear installations. The legislative proposal introduces EU-wide nuclear safety objectives addressing specific technical issues across the entire lifecycle of nuclear installations. Further preparatory work was carried out concerning the policy on liability and insurance in case of a nuclear accident. The Commission signed on 17 September 2013 a Memorandum of Understanding on Nuclear Safety (MoU) with the IAEA creating an enhanced framework for extensive cooperation and further synergies and avoiding duplication of efforts.

The Commission adopted the Report of EURATOM for the 6th Review meeting of contracting parties to the **Nuclear Safety Convention (CNS)** of 23 October 2013In 2013 Intensive discussions with Member States on different options continued on the Commission's draft proposal for a **Council Regulation establishing a Community system for registration of carriers of radioactive materials** that had been adopted on 28 September 2012. Under this proposal, the existing national reporting and authorization procedures would be replaced by a unique registration valid across the whole EU while the safety levels reached would be maintained.

Based on a proposal from the Commission, the Council adopted two regulations on Union support for the nuclear decommissioning assistance programmes in Bulgaria and Slovakia; and in Lithuania covering the period 2014-2020. One of the main achievements of DG ENER in 2013 was the adoption of the **Council Directive laying down basic safety standards** for protection against the dangers arising from exposure to ionising radiation (BSS) by the Council on 5 December 2013. The BSS Directive offers a better protection for workers, members of the public and patients and strengthens the requirements on emergency preparedness and response, taking account of lessons learned from the Fukushima accident.

No case of nuclear material diversion was found in 2013. In the same period, no irregularities were reported for the EU by the International Atomic Energy Agency (IAEA). Focus during the year has been on evolving safeguards approaches to match today's proliferation environment and resource availabilities - an objective which will continue through 2014. Positive safeguards conclusions could be drawn for the vast majority of installations. DG ENER.E carried out 1300 inspections in 2013. The total number of inspection person-days was 3831. The amount of nuclear material safeguarded in the EU continues to rise. Good cooperation continued with the IAEA.

ABB activity 3: Nuclear energy			☒Spending programme ☒ Non-spending
Specific objective 1 To implement and further develop the framework for nuclear safety, security and non-proliferation. **☒ Spending programme**	**Result indicator (description + source)**	**Target (long-term)**	**Current situation (as achieved)**
	Establishment of a common EU framework for nuclear safety **(source: Euratom Treaty, DG ENER D1**)	Revision of the Euratom nuclear safety legislative framework by spring 2013, based on the mandate from the European Council and taking into account the results of the EU stress tests, the evolutions at international level and the stakeholders' input. Preparation of a Communication in 2013 on the status of emergency preparedness and response for a nuclear accident in the EU. Preparation of a Council directive proposal for nuclear liability and insurance.	Adoption on 17 October 2013 of the formal Commission proposal for a revised Nuclear Safety Directive after having received the opinion of the Economic and Social Committee (Com(2013)715); adoption on 4 October 2012 by the Commission of the "Communication on the comprehensive risk and safety assessments ("stress tests") of nuclear power plants in the European Union and related activities" COM(2012) 571; Council unanimous adoption on 25 June 2009 of the Nuclear Safety Directive (OJ L 172, 02/07/2009, p. 18–22) . Preparatory work in view of a joint Communication on off-site emergency preparedness and response and nuclear third party liability and insurance.

		Transposition of the Nuclear Safety Directive by those MS which have not yet complied with this obligation. Conformity checks on the transposition have started.	Conformity checks have been carried out in all EU Member States with NPPs. In Czech Republic, Slovakia, Netherlands and Sweden conformity checks are still on-going.
	Reinforcement of the international nuclear safety framework **(source: Euratom Treaty, DG ENER D1**)	Support a revision of the CNS in 2014 in line with the revised EU nuclear safety legislation.	17 September 2013: Adoption of a Memorandum of Understanding on Nuclear Safety with IAEA. Extraordinary meeting in August 2012: Council mandate to negotiate improvements on the nuclear safety convention (CNS). Commission Decision on the adoption of the Report of EURATOM for the 6th Review meeting of contracting parties to the CNS of 23 October 2013 C(2013)7005. Nuclear stress tests in neighbouring countries (Switzerland, Ukraine, Armenia, Turkey, Croatia) and Taiwan.
	Establishment of a binding EU framework legislation on the management of spent fuel and radioactive waste **(source: Euratom Treaty, DG ENER D2**)	Transposition by MSs: 2013 Preparation of Guidance to Member States on the establishment of national programmes.	End of 2013: 20 Member States have notified full or partial transposition of the Directive adopted by the Council on 19 July 2011. Guidance to Member States was given via joint EC-ENEF-ERDO workshops. The ENEF (subWG Waste – under WH Risk) provided a forum for stakeholders exchanges to prepare guidelines for the national plans. These were issued in 2013. A meeting took place in 2014 with slammer MS to help them start drafting their national plans. Bilateral meetings with Member States were held as well.

	Implementing commitments to decommission nuclear power plants not upgradeable to international standards **(source: DG ENER D2)**	Adoption of the Regulation by Council and Parliament Continue decommissioning so that closed nuclear power plants cannot be reopened. Progress on safe decommissioning of the closed down facilities in line with the MS commitments.	Council Regulations on Union support for the nuclear decommissioning assistance programmes in Bulgaria, Lithuania and Slovakia were adopted on 13/12/2013. Ignalina, units 1-2 closed Bohunice, units 1-2 closed Kozloduy, units 1-4 closed Baseline date 01/01/2014 stemming from the Council Regulations as being the date where the ex ante conditionalities need to be fulfilled.
	Verification of absence of radioactive contamination of equipment; radiological protection of staff ; safety and security of radioactive sources **(source: DG ENER D3, Radiation Protection Regulation of Luxembourg, adopted on 15 December 2000, Memoriale A n°9 22 January 2001)**	Contamination, measurement of all equipment and metal seals returned from nuclear facilities. Monitoring of radiation exposure of occupationally exposed Commission staff. Organisation of operational radiological protection and training. Implementation of EMAS requirements particularly for the DG ENER Luxembourg EUFO building nuclear laboratories. Management of radioactive sources, final disposal of out-of-use sources and transfer of surplus, calibration standards to ITU. Finalisation of the ISO 17025 certification.	2013: No items returned from nuclear installations were found to be significantly contaminated. Some slightly contaminated metal seals were identified and sent to ITU for verification. Radiation exposure monitoring of 240 occupationally exposed Commission staff (DG ENER, AIDCO, HR). No exceeding of any of the annual dose limits was noted. EUFO laboratories management was modified according to EMAS. DG ENER received certification. Management and control of all DG ENER radioactive sources did not give rise to any particular remarks. ISO 17025 certification quality assurance handbook has been created.

	Number of verifications of environmental monitoring facilities **(source: Article 35 Euratom Treaty, DG ENER D3)**	From 2014: 3 + ad-hoc on request	In 2013 there were three verification missions (to Italy, Austria and Croatia).
	Number of Installations reporting Nuclear Materials transactions/ Number of registered installations **(source: DG ENER E5)**	Over 85 – 90 %	97.8 % (Period for 2013 covers 12/12 – 11/13)
	Proportion of accountancy reports verified before transmission to the IAEA **(source: DG ENER E5)**	Over 85 – 90 %	95.7 % (New indicator. Period for 2013 covers 03/13 – 12/13)
	For the receipt of Additional Protocol (AP) declarations from nuclear operators and Member States under the requirements for regular reporting: 1. Number of AP declarations received on time / Number of AP declarations required. For the provision of AP declarations to the IAEA under the requirements for regular reporting: 2. Number of AP declarations sent on time IAEA / Number of AP declarations required. **(source: DG ENER E5)**	1. Over 85 – 90 % 2. Over 85 – 90 %	2013: 1. 87 % 2. 100 %

	Number of IAEA triggered CA (Complementary access at short notice) to which the Commission was able to participate **(source: DG ENER E5)**	100 % (= All)	2013: 100 % (= All)
	Number of agreements signed and successfully implemented **(source: DG ENER D1)**	Conclude necessary agreements with EU suppliers and clients to ensure the security of nuclear fuel supply and full membership of International Conventions	Agreement between Euratom and the Korean Peninsula Energy Development Organisation (KEDO) signed on 24/6/2013 and 4/7/2013 (OJ L188 of 09.07.2013). Agreement for cooperation in the peaceful uses of nuclear energy between Euratom and the Government of South Africa signed on 18/7/2013 (OJ L204 of 31.07.2013).
	Main policy outputs		
	Policy-related		*Expenditure-related*
	Formal Proposal on Nuclear Safety adopted on 17.10.2013, COM (2013)715.		**For decommissioning**: €267M in commitment appropriations were fully committed by 11/11/2013. **For safety:** €2.2M Joint agreement AIEA: €600,000 [Integrated Regulatory Review Service] Study contracts: €770,000 Missions : €50,000 Other services and purchase: €780,000
	MoU between the IAEA and EURATOM has been signed on 17.09.2013.		
	Commission Decision on the adoption of the Report of EURATOM for the 6th Review meeting of contracting parties to the CNS of 23 October 2013, C (2013) 7005.		
	Finalisation of the Euratom-South Africa agreement on 31.07.2013.		
	Result indicator (description + source)	**Target (long-term)**	**Current situation (as achieved)**

Specific objective 2 To strengthen protection of the health of workers and the general public against the dangers arising from ionizing radiations ☒ **Non-spending programme**	Comprehensive radiation protection legislation across all exposure situations and categories of exposure **(Source: Articles 31, 32, 35 and 37 of Euratom Treaty, DG ENER D3)**	Publication of the BSS Directive in the Official Journal of the European Union in early 2014. Note on the transposition of Council Directive 2013/51/EURATOM in early 2014 EP opinion and adoption in the Council expected after the EP elections (June 2014).	Council Directive laying down basic safety standards for protection against the dangers arising from exposure to ionising radiation, adopted by the Council on 5 December 2013. Council Directive 2013/51/EURATOM of 22 October 2013 laying down requirements for the protection of the health of the general public with regard to radioactive substances in water intended for human consumption (OJ L-296 of 07/01/2013, p.12). CSWD on the application of Article 37 of the Euratom Treaty during 2004-2012 transmitted to the European Parliament and the Council on 12.6.2013 [SWD (2013) 216 final]. CSWD on the application of Article 35 of the Euratom Treaty (Report, 2008-2012) transmitted to European Parliament and the Council on 18.6.2013. [SWD (2013) 226 final]. Draft proposal [COM (2013) 57 final] for a Council Regulation on food and feed adopted on 6.8.2013. EESC opinion (NAT/621) received on 16.10.2013; adoption of final proposal by the Commission on 10 January 2014. According to Directive 2003/122/Euratom (HASS Directive), Member States have reported to the Commission on the implementation of this Directive. On that basis the Commission shall submit a report to the European Parliament, the Council and the EESC.
	Main policy outputs		
	Policy-related		*Expenditure-related*

	Council Directive laying down basic safety standards arising from exposure to ionising radiation adopted on 5.12.2013.		
	Council Directive 2013/51/EURATOM laying down requirements for the protection of the health of the general public with regards to radioactive substances in water intended for human consumption was adopted by the Council on 22/10/2013.		
	Revision of Council Regulation N°3954/87 laying down maximum permitted levels of radioactive contamination of foodstuffs and feedstuffs following a nuclear accident or any other case of radiological emergency adopted on 6.08.2013		
	Report to the European Parliament and the Council on the application of Euratom Article 37 during 2004-2011, document transmitted to Council and EP on 12.06.2013		
	Commission Communication on the application of Article 35 of the Euratom Treaty: Verification of the operation and efficiency of facilities for continuous monitoring of the level of radioactivity in the air, water and soil (Report, 2008-2012), document transmitted to Council and EP on 18.06.2013		
	Result indicator (description + source)	**Target (long-term)**	**Current situation (as achieved)**
Specific objective 3 To ensure that declared nuclear materials are used only for their intended purposes through the implementation of nuclear safeguards.	Level of the Commission's safeguards criteria satisfaction in facilities inspected (**source: DG ENER E1).**	1 (equals full satisfaction of the Commission's safeguards criteria in facilities inspected)	0,98 (Period for 2013 covers 01/13 – 11/13).
	Proportion of reports that have been issued by the Commission within the set deadlines (**source: DG ENER E1).**	Over 90 %	90 % (Period for 2013 covers 01/13 – 11/13).

☒ **Spending programme**	Ratio of inspections performed to inspections planned at the beginning of the year (**source: DG ENER E1).**	To keep it between 0,8-1,2	1.05 (1st and 2nd semesters of 2013)
	Main policy outputs		
	Policy-related	*Expenditure-related*	
		2013 budget: Inspection missions – Budget €2.6 million Equipment – Budget € 4.1 million Services (including maintenance, studies, laboratories, informatics) – Budget € 13.9 million	
	Result indicator (description + source)	**Target (long-term)**	**Current situation (as achieved)**
Specific objective 4 To reinforce nuclear safety in neighbouring countries and globally ☒ **Non-spending programme**	Risk and safety assessments (stress tests) in EU neighbouring countries and other third countries **(source: DG ENER D1)**	Performance of stress tests in as many third countries as possible; acceptance of peer reviews by those countries to validate the results.	Stress tests were performed in neighbouring countries Switzerland, Ukraine and Croatia and based upon the EU concept in Russia, Belarus, Armenia, Turkey, Japan, South Korea, South Africa, Brazil and Taiwan.
	Revising the international legal framework on nuclear safety **(source DG ENER D1)**	Making the relevant international conventions more effective and legally binding.	Final Report of the CNS Working Group on Effectiveness and Transparency reporting to the next review meeting on a list of actions to strengthen the CNS and on proposals to amend, where necessary, the Convention.
	Main policy outputs		
	Policy-related	*Expenditure-related*	
	Negotiation directives from the Council for amending the IAEA Convention on Nuclear Safety adopted on 5.09.2013		
	Result indicator (description + source)	**Target (long-term)**	**Current situation (as achieved)**

<table>
<tr><td rowspan="6">Specific objective 5

To strengthen security of nuclear fuel supply

☒ Non-spending programme</td><td>Timely conclusion, by the Euratom Supply Agency, of nuclear materials supply contracts submitted by EU nuclear market players

(source: ESA)</td><td>Target: 100% within 10 working days deadline, starting from the submission of a complete file; except cases when Commission's authorisation is required.</td><td>Latest known result: 154contracts in 2013. Target (i.e. to handle within 10 work days) achieved in more than 90% of cases, no complaints received.</td></tr>
<tr><td>Timely acknowledgement, by the Euratom Supply Agency, of nuclear fuel transformation services submitted by EU nuclear market players

(source: ESA)</td><td>Target: 100% within 14 calendar days, starting from the submission of a complete file.</td><td>Latest known result: 125 notifications in 2013 and timely acknowledged.</td></tr>
<tr><td>Continuous monitoring, by the Euratom Supply Agency, of EU nuclear fuel market developments; coverage of the full year on a regular basis and timely publication of reports

(source: ESA)</td><td>Target: 100% quarterly and annual publications.</td><td>Regular, timely publications ensured. In 2013, ESA issued four Quarterly Uranium Market Reports, six Nuclear News Digests and the weekly Nuclear News Brief.</td></tr>
<tr><td colspan="3">Main policy outputs</td></tr>
<tr><td colspan="2">Policy-related</td><td>Expenditure-related</td></tr>
<tr><td colspan="2">Review / Revision and development of supply policy : a)as related with the Corfu Statement; and b)on research reactor and isotope production targets' materials.

Discussions on a revised supply policy are on-going but the issue of the exercise depends on a number of Commission services. ESA aims at finalising this revision process by the end of the 2nd Quarter 2014.

By the end of the 2nd Quarter 2014, ESA will report to the Council on the results of the activities of the European Observatory for Radioisotopes</td><td></td></tr>
</table>

1.1.4 ABB activity 4: RTD activities related to energy

Within the priorities of the Europe 2020 strategy and the Union priorities of smart, sustainable and inclusive growth, there were significant policy achievements in 2013 in the field of RTD activities related to energy*:*

Through the Seventh framework programme (FP7) actions, DG ENER supported demonstration of innovative solutions for the energy sector and secured combining of financial resources in areas where innovation costs would be too high for the stakeholders to finance on their own.

Horizon 2020, the EU's new R&D Framework Programme for the period 2014-2020, was adopted by the Council on 3 December 2013. This allowed the work programme 2014-2015 to be adopted by the Commission on 11 December 2013, after having been discussed and agreed with the Commission services in the energy challenge group and with the Member States in the Energy Programme Committee. 7,7% of the Horizon 2020 budget is devoted to the societal challenge "Secure, Clean and Efficient Energy", which is more than double the funds available for energy under the FP7. The new, simplified rules for H2020 will allow a better allocation of Commission resources and more effective implementation.

The Communication on Energy Technologies and Innovation (2 May 2013) launched by Commissioners Oettinger and Geoghegan-Quinn at the Strategic Energy Technology (SET) Plan conference (May 2013) built upon the 2007 SET-Plan envisages an Integrated Roadmap, bringing the SET-Plan roadmaps of individual technologies together into a fully integrated vision of our energy system and corresponding work successfully started in 2013. Additionally, in 2013, the European Innovation Partnership (EIP) on Smart Cities and Communities was established preparing the Strategic Implementation Plan (SIP), which was adopted by the High Level Group on 14 October 2013 in the presence of Vice Presidents Kroes and Kallas and Commissioners Oettinger and Hahn. Furthermore, DG ENER contributed to facilitate the demonstration and replication of the results of demonstration projects through industry and stakeholder platforms, project networks and information systems through the Smart Cities Stakeholders Platform.

Moreover, in close cooperation with the JRC, a comprehensive online Energy Research Knowledge Centre (ERKC) has been further developed in 2013, by gathering, analysing and widely disseminating relevant information on energy research activities conducted on the EU level as well as on the Member States level and beyond.

ABB activity 4: RTD activities related to energy			**☒Spending programme**
	Result indicator (description + source)	**Target (long-term)**	**Current situation (as achieved)**

Specific objective 1 To support the development and demonstration of cost-effective technologies for low carbon energy production and distribution and energy efficiency.	Strategic Energy Technology Plan – European Industrial Initiatives implementation: Cost reduction in production of low energy carbon technologies inducted by funded projects[16] **(source: DG ENER C2)**	09/11/2012: 15% cost reduction for the period 2008-2013.	2013: The results show that the target of 15% cost reduction for the period 2008-2013 was reached for the photovoltaics and wind sector, while the data for other sectors is yet to be collected and analysed.
	Increase in energy efficiency for cities participating in demonstration projects integrating Renewable Energy Sources (RES) and Energy Efficiency (EE), CONCERTO **(source: DG ENER C2)**	Intermediary results by end 2013 to show an at least 30% energy reduction beyond the national regulations.	2013: The results show that the target of at least 30% energy reduction beyond the national regulations was reached.

[16] Source: Key Performance Indicators system under SETIS and developed by JRC as well as evaluation and monitoring criteria of the funded projects) measurement unit: EUR/KW installed; EUR/KWh (heating and cooling); EUR/liter(biofuels); EUR/tons

	Results achieved through Smart Cities and Communities demonstration projects [t CO2 avoided, m2 of low-energy buildings built or refurbished; outreach in number of citizens living in demonstration projects and pilot cities] **(source: DG ENER C2)**	Key Performance Indicators to be developed in collaboration with Stakeholder Platform by 2013.	2013: Key Performance Indicators were developed in collaboration with Stakeholder Platform in 2013, and they are being further refined in collaboration with the Sherpas of the High level Group of the Smart Cities and Communities European Innovation Partnership.
	Main policy outputs		
	Policy-related	*Expenditure-related*	
	Communication on Future of Carbon Capture and Storage adopted on 27.03.2013	FP7 energy budget 2013 in the amount of € 233 million in commitment appropriations (including the contribution of € 27 million to the Fuel Cells and	

	Communication on Energy Technologies and Innovation adopted on 02.05.2013	Hydrogen Joint Undertaking) financed the actions such as: - Large industrial demonstration projects; - Pre-commercial industrial scale demonstration plant on paraffinic biofuels for use in aviations; - Large-scale demonstration of innovative transmission system integration and operation solutions for (inter)connecting renewable electricity production; -European scientific multidisciplinary "think-tank" to support energy policy and to assess the potential impacts of its measures; - Demonstration of optimized energy systems for high performance energy districts; - Horizontal activities, e.g. financing CORDIS, COST, Eureka, etc.; - Funding of International Energy Agency implementing agreements; - Funding of Fuel Cells and Hydrogen Joint Undertaking.

Specific objective 2 To facilitate the dissemination and replication of the results of demonstration projects to the European industry through industry and stakeholder platforms, project networks and information systems	**Result indicator (description + source)**	**Target (long-term)**	**Current situation as achieved)**
	Dissemination of the results and progress of CCS demonstration projects via the CCS Project Network (supported under FP7) **(source: DG ENER C2)**	Under the assumption that several EU demonstration projects go ahead, build from the Network knowledge sharing framework to establish wider and deeper cooperation (e.g. with projects outside the EU).	2013: Knowledge aimed at establishing wider and deeper cooperation among projects was successfully shared via the CCS Project Network.
	CONCERTO dissemination effort: new website as virtual community platform **(source: DG ENER C2)**	15% increase of number of website visits.	2013: The target of 15% of annual increase of number of website visits was reached.

	Smart Cities and Communities dissemination efforts: Outreach in number of entities registered in the new Smart Cities Stakeholder Platform **(source: DG ENER C2)**	1300 members of Smart Cities Stakeholder Platform by 31/12/2013.	The target of 1300 members of Smart Cities Stakeholder Platform by 31/12/2013 was reached.

Main policy outputs	
Policy-related	*Expenditure-related*
SET-Plan conference held from 07.05.2013 to 08.05.2013 and Smart Cities and Communities Conference held from 05.06.2013 to 06.06.2013	FP7 Support Action CCS-PNS (with EC funding of € 3 million) provided and continues providing regular progress reports, stakeholder workshops, on-going analysis and international outreach. Smart Cities Stakeholder Platform (with EC funding of € 1.4 million) provided reports, conferences, workshops, interactive website. Concerto Premium (with EC funding of € 4.5 million) provided technical monitoring database, documentary videos, conferences, policy recommendations and best practice brochures.
Communication on Energy Technologies and Innovation adopted on 02.05.2013	
Communication on Future of Carbon Capture and Storage adopted on 27.03.2013	
Strategic Implementation Plan for Smart Cities and Communities adopted on 14.10.2013	
Publication of the CCS Project Network knowledge sharing reports, i.e. the Storage Thematic Report, the Transport Thematic Report and the Regulatory Development Thematic Report published on 21.05.2013, and the Situation report 2012 published on 03.09.2013	
Concerto Conference held from 22.10.2013 to 23.10.2013 with consolidated results of the initiative and workshop on public building refurbishment to support Energy efficiency directive.	
Recommendations for Policy Makers generated from analysis of 58 CONCERTO demonstration projects were approved on 12.12.2013.	

1.2 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities.

According to the financial regulation (art 30), the principle of economy required that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc…) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

DG ENER is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following two initiatives show how these principles are implemented in our DG/service:

1.2.1 Example 1

The cost-benefit analysis carried out in 2013 indicated that the delegation to INEA (ex-TEN-T EA) of the management of parts of the CEF and parts of energy and transport research under Horizon 2020 would make it possible to implement such programmes efficiently and at a lower cost than in the Commission. The delegation of programmes to the Agency is thus estimated to deliver cost-savings in the order of €54 million in 2013 prices over the MFF 2014-2020, compared to the in-house scenario.

1.2.2 Example 2

The Task Force Modern Administration for ENER and MOVE (co-ordinated by the Shared Resource Directorate) elaborated in 2013 a series of new set of measures for the "Administrative Simplification Corner", devised by the SRD. The new measures include the extension of Final Dates of Implementation (FDI) for de-commitments: Directors no more have to intervene for technical actions like de-commitments, sometimes for a few cents only; this is now done exclusively by SRD staff.

2. MANAGEMENT OF RESOURCES

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

- the reports by DG ENER's Directors
- the reports from Authorising Officers in other Directorates-General managing budget appropriations in cross-delegation;
- the result of the Commission supervision on the activities of the entrusted entities;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the Directorate-General level;
- the reports of the ex-post audit function;
- the opinion and the observations of the Shared Internal Audit Capability (SIAC);
- the observations and the recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

This section reports the control results and other relevant elements that support managements' assurance on the achievement of the internal control objectives[17]. It is structured in three separate sections: (1) the DG's assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by other entities to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of internal and external audits, including the implementation of audit recommendations.

DG ENER's programmes and activities are implemented under direct management (54.45%), joint management (32.31%) and indirect management (13.24%).

[17] Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).

Table 2.1 – Distribution of 2013 payments by management mode

Programmes/activities	Amount in million €	Covered in AAR section	Management mode/% of total payments
EEPR	176.67	2.1	**Direct 54.45%**
Research FP7	113.97	2.1 [18]	
Research FP6	11.51	2.1 [19]	
TEN-E	17	2.1	
Intelligent Energy	1.20	N/A	
Support activities to the European energy policy and internal energy market	3.38	N/A	
Administrative expenditure (subsidy to EACI not included)	7.75	N/A	
Subsidy to EACI	6.73	2.2	
Subsidy to ACER	11.93	2.2	
Other	29.35	N/A	
Project Bond Initiative	10	2.2	**Joint 32.31%**
EEEF	24.89	2.2	
Nuclear decommissioning - EBRD	180.30	2.2	
Elena Facility	10	2.2	
Research FP7 -FCH JU	18.18	2.2	**Indirect 13.24%**
Intelligent Energy Europe (EACI)	74.06	2.2 + annex 7 EACI AAR	
Grand total	**696.92**[20]		**100%**

The administrative expenditure (including the subsidy to EACI) represents **2.28%** and the operational expenditure **97.72%** of the €622.86 million paid by **DG ENER** in 2013**.** If payments made by the **EACI** (€74.06 million) are **added**, these percentages are respectively **2.04%** and **97.96%.**

[18] Only part related to grants

[19] Only part related to grants

[20] Total payments made by DG ENER: €622.86 million and by EACI: €74.06 million

2.1 Management of human and financial resources by DG ENER.

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

DG ENER has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

2.1.1 Research Framework Programmes

FP7 payments represent around 21%[21] of the total payments made in 2013 by DG ENER. The general control objective for FP7 has always been to ensure that the residual error rate does not exceed a cumulative level of 2 % by the end of the programme implementation. However, it is worth underlining the negative effects that an over-emphasis on this target can have, in terms of attractiveness of the policy and international competitiveness. The key aim is to achieve a good balance between legality and regularity and the achievement of policy objectives, and between trust and control, rather than a concentration on one legality and regularity indicator. For Horizon 2020 DG RTD has proposed that this 2% control objective be modified.

In order to achieve both operational (research-related) and financial objectives a control framework has been established to prevent, detect and deter irregularities at the different stages of the grant management process. This control framework must, however, be cost-effective and not cause excessive administrative burdens to researchers and participants. DG ENER therefore operates a trust-based system of targeted controls before payment.

The Research Directorate-Generals have defined and implemented a common control strategy, the key elements of which are the ex-post audit strategy and the recovery process. These elements are intended to provide reasonable assurance on the legality and regularity of expenditure on a multi-annual basis by systematically detecting and correcting errors. Since 2012, as an extension of the ex-post audit strategy, a Common Representative Sample was used to identify the common error across the whole of FP7 operations. This Common Representative audit Sample (CRaS) has been instrumental in lowering the audit burden on large beneficiaries who, before the implementation of this new approach, would have been audited by several Commission services.

Materiality is assessed for the Seventh Framework Programme (FP7) in accordance with **Annex 4**. In 2013, DG ENER also managed financial operations under the Sixth Framework Programme (FP6) but, given their limited amounts (FP6 payments represent less than **2%** of the payments made by DG ENER in 2013), and the fact that these are the residual payments for a programme

[21] Including payments made to FCH JU

that is about to be closed, these are not covered in the current AAR.

To give an indication of the relative weight of each of them, **Table 2.2** shows the distribution of Research payments in 2013.

Table 2.2 - 2013: Research payments per Framework Programme (amounts in €)

Framework Programme	Pre-financings	Payments against cost statements	Expenditure of administrative nature	FCH JU	Total	% of total
FP6	2,000,399.99	9,405,345.94	108,206.05	-	11,513,951.98	8%
FP7	55,092,214.44	55,034,555.57	3,841,744.67	18,178,953	132,147,467.68	92%
Total	**57,092,614.43**	**64,439,901.51**	**3,949,950.72**	**18,178,953**	**143,661,419.66**	**100%**

The control systems are divided into four distinct stages, each with specific control objectives. Key indicators have been defined for each stage.

Stage one: Call for an evaluation of proposals

The first stage concerns the preparation of calls, call for proposals and evaluation of proposals. The overall control objective of this stage is to evaluate the projects in order to ensure scientific excellence (selection of the best projects) and the achievement of the operational objectives set out in the specific work programmes, as adopted by the Council and the Parliament. Proposals are reviewed by panels of external reviewers, who are experts in the scientific field.

DG ENER successfully concluded the calls planned in the annual work programme:

Number of calls successfully concluded /number of calls planned in the annual work programme	100%

The following indicator shows that both 2013 calls are oversubscribed:

Total requested funds/total budget available	Call FP7-ENER-2013-2: **142%**
	Call FP7-Smartcities-2013: **335 %**

This demonstrates the continuing popularity of the programmes managed by the DG and the competitiveness of the calls process. It also underlines the importance of a good evaluation process, as the most excellent projects need to be chosen from a large number of proposals.

Key controls include the screening of proposals for eligibility, the choice of independent evaluators, the evaluation by a minimum of three evaluators, and a panel review for the ranking of proposals. The list of approved proposals is checked for legal compliance by the AOSDs before it is submitted for a Commission inter-service consultation.

These are key checks to ensure the excellence of the science to be funded and the legality and regularity of operations, since a compliance deficiency in the evaluation process would affect the regularity of all the ensuing grants.

Furthermore, a redress procedure provides applicants with the possibility of making a

complaint if they think that there were shortcomings in the handling of their proposal during the evaluation. A redress committee, working independently, analyses eligible complaints and, where suitable, may recommend the re-evaluation of the proposal. The final decision on follow-up actions is taken by management. The indicators on the redress procedure presented in Table 2.3 provide an indication of the quality and effectiveness of the proposal evaluation process, which constitutes a key element of the grant award process in Title VI of the Financial Regulation.

Table 2.3 - Redress procedure

	Call FP7-ENER-2013	Call FP7-Smartcities-2013
Number of proposals received	17	15
Number of redress requests received	0	3
Number of redress requests received as % of number of proposals received	0%	20%
Number of redress cases leading to a re-evaluation	0	0
Number of redress cases leading to a re-evaluation as % of number of proposals received	0%	0%
Number of successful redress challenges / total number of proposals received	0%	0%

The three redresses were examined by a redress committee that concluded that the arguments presented by the applicants were unfounded and did not justify a re-evaluation of the proposals.

Therefore, the share of redress requests and cases upheld provide an indication of the robustness of the grant award process and assurance with respect to the effectiveness of the internal control system.

Stage two: Contracting

The second stage concerns the selection of proposals and the negotiation of contracts. The overall objective of this stage is the translation of each of the retained scientific research proposals into a legally binding contract allowing for the management of both the scientific and financial aspects of the project. The negotiation process should exclude work not directly contributing to the achievement of the scientific objectives; substantiates the project costs; and determines the duration of the project and the contribution from the EU budget. Extensive legal and financial aspects are checked (e.g. legal status of consortia of multiple private and public partners located in different countries, checks on the financial viability and capacity to co-fund the projects and to carry out the actions). It is an important tool for ensuring the economy and efficiency of the use of the budget appropriations.

For both calls the time to inform participants of the outcome of the evaluation process is below the limit of 6 months provided for in Art.128.2 a) of the 2013 Financial Regulation:

Time to inform applicants of the outcome of evaluation (Art.128.2 a) of the new FR	Call FP7-ENER-2013-2: 2.4 months
	Call FP7-SMARTCITIES-2013: 5.7 months

Another key indicator concerns the length of the time period between the closure date of the call for proposals and the date of the signature of the contract with the coordinator, the so-called 'Time-To-Grant' (TTG). It should be borne in mind that this time is used by the Commission to carry out extensive checks (see above) before signing grants.

The data presented below refer to grants signed in 2013 related to the **2012** calls for proposals[22]. It needs to be noted that the 9 months TTG target provided for in of Art 128.2 of the 2013 Financial Regulation do not apply to these calls and that no specific target for the TTG was set up in the 2013 Management Plan.

Average time to grant	Call FP7-ENERGY-2012-2: 13.4 months
	Call FP7-ENERGY-SMARTCITIES-2012: 16.4 months
	Call FP7-2012-NMP-ENV-ENERGY-ICT-EeB (ENER part): 17.0 months

Stage three: Monitoring the execution of projects

The third stage concerns the management of the project and the contract. This stage comprises the technical monitoring of the contract over its lifetime, and also ex-ante checks of participants' cost claims. These ex-ante checks consist in the processing of transactions through Commission financial circuits to ensure that the transactions authorised are in compliance with the applicable rules.

In addition, every cost claim over €375,000 must be accompanied by a 'certificate on the financial statement' (CFS), given by a qualified auditor or a Certified Public Official. The Research family, as well as the European Court of Auditors, have identified that these certificates do not always identify all ineligible expenditure in the cost claim. To assess the effect of this weakness DG RTD carried out a study that showed that cost claims with a CFS had an average error rate 50% lower than those without. This shows that, while not perfect, these CFSs do have a significant positive effect.

It has therefore been decided to continue with the system in FP7 and Horizon 2020. Additional efforts have been made during the communication campaign on the most likely errors to target auditors (around 300 of the 3100 people participating in the communication events were auditors). Additional guidance, and clearer templates, will be prepared for Horizon 2020. The simplifications proposed in Horizon 2020 will also make the job of the auditors easier.

[22] Grants for 2013 calls for proposals have not yet been signed

Table 2.4 shows the reductions made to the EU contribution claimed by grant beneficiaries. Ex-ante checks have prevented the payment of around €5.6 million, representing 6.8% of the requested EU contribution. The main errors detected in cost claims concern inconsistencies between the information supplied by grant beneficiaries (amount of costs, methods of calculation, periods, etc.) and that included in the audit certificate when submitted, incomplete or missing audit certificates, arithmetical errors, audit certificates not provided by a qualified auditor, costs incurred outside the eligibility period, costs not covered by the legal basis.

Table 2.4 – Ex-ante checks: reductions to the requested EU contribution

Value of EU contributions requested by beneficiaries	Value of the reductions made to the EU contribution through ex-ante checks[23]	Percentage of the reductions made to the EU contribution through ex-ante checks
82,056,137	5,553,805	6.8%

Another indicator related to the management of projects and contracts is the indicator is 'Time-To-Pay' (TTP), which is defined as the percentage of payments made within the binding deadlines, as shown in table 2.5.

Table 2.5 – Net average time to pay

Net average time to pay for FP7 grants	% on time
59.2 days	92.1%

These indicators show that DG' ENER is doing particularly well as the average time to pay is below the legal deadline of 90 days and the percentage of payments on time is above the Commission's average (82%).

Stage four: Ex-post controls and recoveries

The fourth stage includes the ex-post audits as well as the recovery of any amounts found to have been paid in excess of the amount due.

As stated above, detailed ex-ante controls represent a considerable administrative burden on beneficiaries and the Commission, as they require the transfer of large amounts of information and its detailed checking. This has a seriously negative impact on the time to grant contracts and the time to pay beneficiaries. For this reason the Research family has decided to obtain most of its assurance from ex-post controls.

[23] Audit results implementation and budget capping are not included in this amount

During 2013, 28 FP7 audits were finalised[24]. The resources devoted to the audit function shared by DG ENER and DG MOVE are as follows (all audits together, i.e. including audits on FP6 (6)[25], EEPR (22: see section 2.1.2 below), TEN-E (13: see section 2.1.3) and Nuclear decommissioning (2: see section 2.2):

Table 2.6 - Resources used in the Shared Resource Directorate MOVE/ENER for the audit function

	2012	2013
Internal resources for ex-post audits	16 FTE	13.89 FTE
Cost of externalised auditing (in €)	905 233	466 014

The estimated cost of internal resources for ex-post audits is €1 756 200[26]. Added to the cost of outsourced audits, it results in a total cost for the audit function of €2 222 214, which corresponds to an average of €23 392 per audit completed in 2013.

The main legality and regularity indicator is the error rate detected by ex-post audits. Because of its multi-annual nature, the effectiveness of the control strategy of the Research Directorates-General can only be fully measured and assessed in the final stages of the Framework Programme, once the ex-post control strategy has been fully implemented and systematic errors have been detected and corrected.

Since 2007, the Research Directorates-General have adopted a common audit strategy intended to ensure the legality and regularity of expenditure on a multi-annual basis including detecting and correcting systematic errors. The audits examine only interim and final claims by beneficiaries. Transactions relating to pre-financing are not included in the population subject to audit. The approach to the Coal and Steel Research Fund is slightly different because of the limited number of transactions involved.

Up to 2011, each of the seven Authorising Officers by Delegation of the Commission services involved with implementing the research budget - the 'research family' - established a representative error rate for his/her own portion of the budget. This led to considerable planning constraints and multiple audits of the same beneficiaries by different services.
Therefore a Common Representative audit Sample (CRaS) was introduced in 2012 across the research family. This reduced the audit burden on beneficiaries by reducing the number of repeat audits whilst continuing to provide a representative view of the implementation of FP7. As a result, the total number of planned audits could be reduced by 1 291 for the research family as a whole.

The Common Representative Sample is intended to estimate the overall level of error in FP7, across all services involved in its management. It is complemented by 'risk-based' audits, audits selected according to one or more risk criteria.

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24 An audit is considered finalised when the final audit report is sent by the Financial Audit Unit (SRD.1.004) to the Financial Management Unit for implementation.

[25] For FP6 this includes both energy and transport

26 *This figure is calculated based on the average staff costs as communicated in the circular note of DG BUDGET to RUF of 08/08/2013*

Different indicators are calculated to provide a comprehensive view of legality and regularity:

Representative Error Rate: This is the error rate derived solely from the results of audits on a representative sample of beneficiaries, extrapolated by a statistical method to the overall population. This error rate provides an estimate of the level of error in FP7 at the time of the audits but says nothing about the follow-up and corrections/recoveries undertaken by Commission services after the audit, nor of the net final financial impact of errors. This error rate is calculated for FP7 as a whole.

Residual Error Rate: The residual error rate, on a multi-annual basis, is the extrapolated level of error remaining after corrections/recoveries undertaken by Commission services following the audits that have been made. The calculation of the residual error rate, as shown in **Annex 4**, is based on the following assumptions:

- (1) all errors detected will be corrected;
- (2) the residual error rate for participations subject to extrapolation is estimated to be equal to the non-systematic error rate; and
- (3) all participations subject to extrapolation are clean from systematic material errors.

The residual error rate develops over time and depends on the assumptions set out above. This indicator is reliable and acceptable for the purposes for which it was intended, i.e. as a legality and regularity indicator on the progress made, through its ex-post strategy, in dealing with errors over a multi-annual basis. However, it also provides an estimate of the effect if not all extrapolations were in fact completed.

Results of FP7 ex-post audits

In the case of FP7, the year 2013 was the fifth year of implementation of the audit strategy. The audits performed intend to achieve two separate goals. A random MUS sample of participations is audited in order to produce a statistically representative estimate of the error rate present in the FP7 population. A separate sample, selected on the basis of size and risk criteria, is audited in order to detect and correct as many errors as possible and to identify possibly fraudulent operators. The audits are respectively referred to as 'representative' or 'corrective' depending on their main purpose.

Detailed data on DG ENER FP7 audit coverage are shown in table 2.7:

Table 2.7 – FP7 audit coverage

	Planned cumulative period	Achieved cumulative period	Planned in 2013	Achieved in 2013
Number of closed audits	89	82	36	28
Total amount audited (EC share €)	n.a.	23 557 266	n.a.	14 683 292

The error rates resulting from DG ENER FP7 audit work are:

Common Representative Error Rate: Based on 156 cost statements for which the audit is completed (96% out of a sample of 162), this error rate is **4.14%**. The remaining cases are still subject to contradictory procedures with the beneficiaries; consequently, the Common Representative Error Rate may still develop. Based on the preliminary results of audits that are

not yet closed it is estimated that this error rate will finish at around 5%. The Common Representative Error Rate is in a similar range to the one referred to in the Financial Statement accompanying the Horizon 2020 proposals (around 5%). The rate of error identified by the European Court of Auditors is in a similar range as well.

Residual Error Rate: At this point in time, this error rate amounts to **3.81** % (as detailed below) and may rise slightly following the development of the Common Representative Error Rate. It is clear that the maximum 2% residual error target will not be attained without a massive increase in the number of audits, or a considerable increase in the administrative burden imposed on participants through widespread ex- ante controls.

RepER:	- 4.14% (DG RTD)
RepERsys:	-1.75% (DG RTD)
Total estimated EU contribution (P)	962,763,654
Costs accepted by Financial officers (A)	22,854,800
Total non-audited participations of audited beneficiaries (E)	129,265,674
Residual error rate: ResER=(((RepER*(P-A))-(RepERsys*E))/P	-3.81%

It is worth mentioning that DG ENER used the outcome of the study on the higher error rate in FP6 as a basis for its selection of risk audits, targeting as such research organizations and governmental bodies such as municipalities, ministries, national institutes owned by the government, police and research organizations, etc. It is also important to clarify a misinterpretation of the outcome of the study on DG ENER's higher FP6 error rate: the study did not indicate that the overall population of DG ENER beneficiaries had a higher risk profile compared to other DG's. The conclusion of the study was that the beneficiaries that were audited by DG ENER (audit population) consisted of beneficiaries with a higher risk profile than the audited population of other Research DGs thus resulting in a higher error rate.

In addition to the risk-based audits, DG ENER performs audits on beneficiaries who represent the largest expenditure.

The cumulative error rate resulting from these targeted audits is 12.18% (total negative adjustments divided by the total claimed amounts).

To derive assurance, DG ENER is using the residual error rate, which is considered by the Research DGs as a reliable and acceptable indicator for the purposes for which it was intended, i.e. as a legality and regularity indicator on the progress made, through its ex-post strategy, in dealing with errors over a multi-annual basis. It also provides an estimate of the effect if not all extrapolations were in fact completed.

Although the Residual Error Rate for FP7 remains above the target of 2%, account should be taken of the cost of achieving this target. As was stated in the Financial Statement accompanying the Horizon 2020 legislation, the attempts to achieve the 2% target have caused a number of unexpected and/or undesirable side-effects. Among beneficiaries and the legislative authorities, the feeling has been strong that the control burden has become

excessive. This increases the risk of lowering the attractiveness of the Union's Research programme, thereby negatively affecting Union research and innovation.

The European Council of 4 February 2011 concluded that:

> *"it is crucial that EU instruments aimed at fostering R&D&I be simplified in order to facilitate their take-up by the best scientists and the most innovative companies, in particular by agreeing between the relevant institutions a new balance between trust and control and between risk taking and risk avoidance". (see EUCO 2/1/11 REV1, Brussels 8 March 2011)*

The European Parliament - in its Resolution of 11 November 2010 on simplifying the implementation of the Research Framework Programmes - explicitly supported a higher risk of errors for research funding and:

> *"expresses its concern that the current system and the practice of FP7 management are excessively control-oriented, thus leading to waste of resources, lower participation and less attractive research landscapes; notes with concern that the current management system of 'zero risk tolerance' seems to avoid, rather than to manage, risks".*

The European Parliament also, in its report on the Court of Auditors' special reports in the context of the 2012 Commission discharge:

> *"Emphasises the necessity to strike the right balance between less administrative burden and effective financial control; notes that due to the specifics of the research field, a risk-tolerant and science-based approach should be encouraged so as to achieve research excellence and better impact of projects; believes that this approach will allow the Commission to uphold the balance between trust and control"*

There is therefore an acceptance among stakeholders and institutions that the current approach needs to be reviewed. There are other objectives and interests, especially the success of the Union's research policy, international competitiveness, and scientific excellence, which should also be considered. At the same time, there is a clear need to manage the budget in an efficient and effective manner, and to prevent fraud and waste.

Taking these elements in balance, and in the light of the results of the FP7 audit campaign, it is considered that its overall control strategy ensures that trust, control and other policy objectives are kept in balance. Aiming to achieve a residual error rate of 2% at all costs is not a viable approach. For this reason, Article 23 of the new proposal for the Horizon 2020 Regulation explicitly states that:

> *"The control system shall ensure an appropriate balance between trust and control, taking into account administrative and other costs of controls at all levels, so that the objectives of Horizon 2020 can be achieved and the most excellent researchers and the most innovative enterprises can be attracted to it".*

It also states that audits of expenditure on indirect actions shall be carried out in a coherent manner "to minimize the audit burden for participants".

The reservation in the declaration of assurance for the FP7 expenditure is addressed in Part 4.

Development of error rates

As was reported in the 2012 AAR, a modification of the FP7 legal framework is no longer an option. The services responsible for Research will continue to provide guidance to beneficiaries and certifying auditors, and will continue their control and audit operations, including recovery and extrapolation of errors to non-audited contracts wherever appropriate. This should have some effect on the error rate, particularly in lowering the residual error rate, but will not provide fundamental changes. A second 'representative sample' will be taken later in the programme to provide another estimate of the representative error rate. It is hoped that the learning effect from the first audits will have some effect, but this is unlikely to be substantial.

Overall then, the representative error rate in FP7 audits can be expected to remain around 5%, with the residual error rate of 3% or a bit lower over the course of the programme. As was noted in the 2012 AAR:

"*Taking into account the FP6 experience, and the need to balance legality and regularity with other objectives such as the attractiveness and the success of research policy, international competitiveness, scientific excellence, the wish to encourage participation of SMEs and the cost of controls, it is not expected that by the end of the programming period the Residual Error Rate will be below the materiality threshold".*

In the Financial Statement accompanying the proposal for Horizon 2020, the Commission set out its analysis of the likely future trend of error rates. It stated that the simplifications introduced in Horizon 2020 could be expected to lower the representative error rate from 5% to 3.5%, with the Residual Error Rate being lower, as close as possible to 2% (but without necessarily being below 2%). This analysis still holds true, as the simplifications proposed were generally accepted.

However, some elements have been introduced in the legislation that will increase the risks in the programme. Firstly, there is the target for an increased participation of Small and Medium Size Enterprises (SMEs). As was noted in DG RTD's 2012 AAR, SMEs have an error rate more than twice the rate for non-SMEs (6.61% as opposed to 3.07%). This is not entirely surprising, but the involvement of SMEs is vital to increasing innovation and boosting jobs in the EU. However, it does mean that an increased participation of SMEs increases risk.

Secondly, Horizon 2020 includes a commitment to widening the participation in the Programme, i.e. to having more new participants. However, as shown last year in DG RTD's AAR, new participants have an error rate nearly three times as high as recurrent participants (8.32% as opposed to 2.94%). Widening, though a positive element for the European research landscape, increases risk.

Finally, during the discussions on the legislative package for Horizon 2020, provision was made for support to participants with large research infrastructures. This provision should support some of the major European research organisations, who might otherwise have had difficulty funding their advanced research infrastructure, but does insert an additional complication into the rules, and with it an increased risk.

The Commission will take actions to try to mitigate the risk arising from these three new elements (guidance, training, ex ante assessments for large infrastructure) but these will only mitigate, not avoid, the risks.

Overall then, the Research family still believes that residual error rates should still fall over the course of FP7. They should also be reduced in Horizon 2020 thanks to the simplifications introduced in the legislation. However, it underlines that the level of reduction in Horizon 2020 is subject to the effect of elements introduced during the legislation which, although perfectly understandable in terms of improving support for European research and innovation, may have the effect of increasing risks.

Implementation of FP7 audit results

By the end of 2013, the adjustments have been made for 49 participations. The amount to be recovered was €2,989,060.07 in favour of the Commission. 4% of this amount was implemented by the end of 2013, mainly (59%) through offsetting the adjustment from subsequent payments. As most cases have been identified in 2012 or later there might be 18 months before new declarations are received, it is not unexpected to have a large number of open cases at this stage.

Table 2.8 – Implementation of FP7 ex-post audit results in favour of the EC

2010-2013	Results from external audits		Adjustments in contradictory procedure		Adjustments implemented	
	Number	Funding adjustment	Number	Funding adjustment	Number	Funding adjustment
	49	**-2,989,060.07**	**31**	**-2,867,669.37**	**18**	**-121,390.70**

Implementation of extrapolation

The extrapolation of audit findings to non-audited beneficiaries continues. These corrections stem from audits made by DG ENER or other DGs in the research family were systematic errors were found. By the end of 2013 53 such participations were found and the beneficiaries were asked to rectify the errors in DG ENER projects and submit revised costs statements. On this basis, 30 participations were judged to be concerned by the systematic errors identified by DG ENER or any of the other DGs. Systematic errors have been corrected for 6 participations, of which 3 in favour of the beneficiary. The implementation rate of FP7 recommendations was 54% at the end of 2013, compared to 58% in 2012. As most cases have been identified in 2012 or later there might be 18 months before new declarations are received, it is not unexpected to have a large number of open cases at this stage.

Table 2.9 – Implementation of extrapolation of FP7 audit results

2010-2013	Number of participations with expected systematic errors	Number of participations without systematic errors	Implemented cases				Number of participations to be implemented[27]
			In favour of EC		In favour beneficiary		
			Number	Value	Number	Value	
	53	**23**	**3**	**-113,619.52**	**3**	**19,335.61**	**24**

Liquidated damages

Liquidated damages are a financial penalty that the beneficiary has to pay if they breach contractual obligations. This includes when they over claim contributions to funding in the research programmes. In these cases the beneficiary has to repay the overpaid amount plus the liquidated damages. The extent of the liquidated damages is proportionate to the overstated costs and the unjustified amount received by the beneficiary. In several cases, they do not result in a recovery order due to the application of the *de minimis* rule[28].

Since its creation, DG ENER has applied liquidated damages to beneficiaries who received unjustified EU contribution in the FP7. By the end of 2013 there had been 13 cases and 6 recovery orders have been issued totalling €7,412.65. In 2014 5 further recovery orders will be issued. For cost-effectiveness reasons, DG ENER does not apply liquidated damages when the amount to recover is less than €200. As a result no damages were sought in 2 cases.

[27] Cases to be implemented are those for which the Commission has written to the beneficiaries requesting them to submit revised cost statements to correct the systematic issues detected

[28] Liquidated damages will only be applied where the unjustified contribution exceeds 2% of the total contribution claimed for the given period.

2.1.2 EEPR

The European Energy Programme for Recovery (EEPR) was designed to inject significant sums into the EU economy quickly in order to stimulate the EU recovery out of recession, while at the same time contributing to the goals of the European energy policy. To this end, all the money had to be committed by the end of 2010. Given that the first two stages of the control system, i.e. call for proposals, their evaluation and the contracting phase were completed by the end of 2010, this AAR will only focus on stages 3 and 4.

Stage three: Monitoring the execution of projects

The third stage concerns the management of the project and the contract. This stage comprises the technical monitoring (with the help of independent technical experts) of the Commission decision/grant agreements over its lifetime, and also ex-ante checks of participants' cost claims. These ex-ante checks also include audit certificates on cost statements established by external auditors, when required by the grant agreement or decision, and the processing of transactions through Commission financial circuits to ensure that the transactions authorised are in compliance with the applicable rules.

As a result of ECA's findings related to errors in public procurements awarded by beneficiaries of EEPR grants, DG ENER has ensured that the checks on procurements are incorporated in the financial workflows.

The payments for EEPR grants represent around 28% of the total payments made by DG ENER

Table 2.10 shows the reductions made to the EU contribution claimed by grant beneficiaries. Ex-ante checks have prevented the payment of around €1.35 million, representing 0.3% of the requested EU contribution. The main errors detected in cost claims concern inconsistencies between the information supplied by beneficiaries (amount of costs, methods of calculation, periods, etc.) and that included in the audit certificate when submitted, incomplete or missing audit certificates, arithmetical errors, audit certificates not provided by a qualified auditor, costs incurred outside the eligibility period, costs not covered by the legal basis.

Table 2.10 – Ex-ante checks: reductions to the requested EU contribution

Value of EU contributions requested by beneficiaries	Value of the reductions made to the EU contribution through ex-ante checks[29]	Percentage of the reductions made to the EU contribution through ex-ante checks
414,630,667	1,352,942	0.3%

Another indicator related to the management of projects and contracts is the indicator is

[29] Audit results implementation and budget capping are not included in this amount

'Time-To-Pay' (TTP), as shown in Table 2.11 and is also defined as the percentage of payments made within the binding deadlines.

Table 2.11 – Net average time to pay

Net average time to pay	% on time
18.6 days	96.9%

These indicators show that DG' ENER is doing particularly well as the average time to pay is below the legal deadline of 30 days and the percentage of payments on time is above the Commission's average (82%).

Stage four: Ex-post controls and recoveries

The fourth stage includes the ex-post audits as well as the recovery of any amounts found to have been paid in excess of the amount due.

During 2013, 22 audits were finalised on the EEPR programme. For the overall costs of audits performed, see point 2.1.1.

EEPR audits carried out by DG ENER

The audit plan for the EEPR programme is that all 65 beneficiaries will be audited during the life of the programme. Given the size of most payments, audits are normally launched after the first cost statement has been paid.

Table 2.12 shows that out of the 46 audits launched by the end of 2013, 36 have been finalised (6 in 2011, 8 in 2012 and 22 in 2013).

Table 2.12 - EEPR audit coverage

Number of launched	Number of closed audits	Total amount audited (EC share in €)	Overall errors (in €) in favour of the Commission	Error rate in favour of the Commission
46	36	452,738,954	-7,375,188	-1,63%

EEPR audits carried out by the European Court of Auditors (ECA)

In addition, given the size of the payments, the ECA frequently analyse them as part of their work on the annual "Statement of Assurance" (DAS). In order to ensure that beneficiaries do not have the perception of being audited twice, the Financial Audit Sector accompanies the Court when they visit the beneficiary.

By the end of 2013, the ECA had performed 12 audits on EEPR Beneficiaries representing an EC share of €203,290,374. By the end of 2013, DG ENER has acknowledged (accepted and refused) the ECA's findings of 10 of these audits.

Combined results of all EEPR audits

For the purpose of calculating the combined result of the DG ENER and ECA audits, the

following have been taken into account:
- 36 finalised DG ENER audits;
- 10 acknowledged results of ECA audits;
- the ECA's findings of one open audit[30], even though the evaluation is still ongoing; and
- the preliminary results of a DG ENER audit which covers the scope of the ECA's audit[31].

The total EC share audited for these 48 relevant audits is €663,356,639 and the findings amount to a total of negative adjustments of €- 26,684,909€ (i.e. -4.02%).

At time of the first preliminary results of the EEPR audits in 2011, DG ENER identified a potential risk relating to public procurement procedures. DG ENER put in place an action plan to counter this risk. As part of the action plan, DG ENER's audit programme was extended in order to increase the audit coverage:

All final and first interim payments will be audited, except if the ECA has already audited them or selected them for an audit.

Other interim payments: the analysis of the public procurement procedure should normally have been done already through the audit of the first interim payment. The risk at this stage is more limited and the audit would then focus more on purely financial aspects. The decision to carry out an audit will be made on a case-by-case basis.

As a result of the above mentioned approach, a vast majority of claimed EEPR costs have been audited. The residual error rate now amounts to 1.63% (see calculation in the table hereunder), below the materiality threshold of 2%.

Total aggregated amount in € of EC share of all cost claims received before end 2013 (P)	1,003,883,662
Total EC share of all audited beneficiaries, expressed in € (A1)	663,356,639
Total EC share of audited cost statements (A2)	663,356,639
Total amount (€) of negative adjustments as a result of audits (Err)	-26,684,909
Total EC share of audit adjustments (only results in favour of the Commission) not implemented (recovery, offsetting or forecast of revenue) by 1Q2014 (NonImpErr)	-2,708,849
$ResER\% = \frac{((P - A1) \times (Err / A2)) + NonImpErr}{P}$	-1.63%

[30] ECA audit nr 11P2107

[31] ECA audit nr 11P2108

Implementation of audit results

By the end of 2013, adjustments have been made for 41 participations, of which 19 with an adjustment in favour of the Commission (5 implemented - amount -€247,753.98), 7 with adjustments in favour of the beneficiary (6 implemented – amount €6,225,589.38) and 15 with no adjustment (all implemented). Table 2.13 shows the consolidated amounts of the implementation of EEPR audits. As most cases have been identified in 2013 it is not unexpected to have a large number of open cases at this stage.

Table 2.13 – Implementation of EEPR ex-post audit results in favour of the EC (2011-2013):

Results from external audits		Adjustments in contradictory procedure		Adjustments implemented	
Number	Funding adjustment	Number	Funding adjustment	Number	Funding adjustment
41	1,147,607.53	16	-4,830,227.87	25	5,977,835.40

Lift of the EEPR reputational reservation issued in the AAR 2012

Even though there is still a potential risk of errors by EEPR beneficiaries of not respecting public procurement rules when subcontracting, DG ENER has decided to lift the reputational reservation issued in the AAR 2012 for 2 reasons:

1. The residual error rate is below the 2% threshold (1.63%)

2. Appropriate corrective measures have been taken as of 2013 to eliminate the risk:

   - Letters to all beneficiaries of public procurements were sent in December 2012, reminding them about their obligations concerning public procurement. The letters contained a text agreed with the Legal Service related to procurement checks. The analysis concluded that while most of the beneficiaries fall under the EU directives on public procurement, the majority of EEPR projects are not affected by public procurement issues. Most errors relate to isolated mistakes that cannot be anticipated and the number of systemic mistakes is hence very low.

   - In addition, ex ante and ex-post controls have been strengthened :
     - Internal checks on public procurement are carried out before payments are made to beneficiaries;
     - Audits are performed after each first intermediary payment and for all final payments, so that by the end of the programme all possible overpayments will have been identified.

2.1.3 TEN-E

Stage one: Call for and evaluation of proposals

The first stage concerns the preparation of calls, call for proposals and evaluation of proposals. The overall control objective of this stage is to evaluate the projects in order to ensure technical excellence (selection of the best projects) and the achievement of the operational objectives set out in the specific work programme, as adopted by the Commission. Proposals are evaluated by in-house staff, which is competent in the field.

DG ENER successfully concluded the calls planned in the annual work programme:

Number of calls successfully published /number of calls planned in the management plan/work programme (2013)	100%

Total requested funds/total budget available (call 2013)	44.5 million /12.2 million= **365%**

This indicator shows that, on average, calls are nearly 4 times oversubscribed. This demonstrates the continuing popularity of the programmes managed by the DG and the competitiveness of the calls process. It also underlines the importance of a good evaluation process, as the most excellent projects need to be chosen from a large number of proposals.

This process should exclude work not directly contributing to the achievement of the technical objectives; substantiates the project costs; and determines the duration of the project and the contribution from the EU budget. Key controls include the screening of proposals for eligibility, the assessment of the beneficiary's operational and financial viability and capacity to co-fund the projects and to carry out the actions, checks on legal and financial aspects (e.g. legal status of private and public partners located in different countries). It is an important tool for ensuring the economy and efficiency of the use of the budget appropriations as well as the excellence of the projects to be funded and the legality and regularity of operations, since a compliance deficiency in the selection process would affect the regularity of all the ensuing grants.

Each proposal is evaluated by three in-house evaluators who have to reach a consensual decision. The evaluation Committee (composed of the in-house evaluators and the Head of Units concerned designated by the Director) proposes a draft Commission Implementing act on the list of proposals to receive TEN-E financial aid, which is subject to a Commission inter-service consultation and to the positive opinion of the Member States (comitology). The Commission adopts its Implementing decision on the list of projects selected in the field of trans-European energy networks to be granted financial aid for the financial year X and setting the maximum amount of that aid.

For calls 2013, the time elapsed between the closure of the call and the Commission implementing decision is as follows:

Time to inform applicants of the outcome of	8 months

evaluation (Art.128.2 a) of the new FR	

The indicator is above the target of 6 months provided for in the Financial Regulation but can be explained by the technical complexity of proposals to be evaluated as well as the approval procedure described above (inter-service consultation, positive opinion of Member States, written procedure for adoption)

Unlike for research grants, there is **no redress procedure** available for applicants to the TEN-E, given that the list of projects is approved by the Member States before the Commission implementing decision.

Stage two: Clarification phase and notification of individual decisions

The second stage concerns the notification of the individual Commission decision to grant financial aid to the beneficiaries and Member states concerned. The overall objective of this stage is the translation of each of the selected projects into a legally binding grant decision allowing for the management of both the technical and financial aspects of the project. The so-celled "clarification stage" aims at working with the beneficiaries to adapt their initial proposals to the Commission implementing decision on the financial aid granted.

A key indicator concerns the length of the time period between the closure date of the call for proposals and the date of the adoption of the individual decision, the so-called 'Time-To-Grant' (TTG). It should be borne in mind that this time is used by the Commission to carry out extensive checks (see above) and adaptation of initial (technically complex) proposals to financial aid decided by the Commission.

The data presented in the table below refer to decisions notified in 2013 related to the **2012** call for proposals[32]. It needs to be noted that the 9 months TTG target provided for in of Art 128.2 of the 2013 Financial Regulation do not apply to these calls and that no specific target for the TTG was set up in the 2013 Management Plan either.

Time to grant (FR 128.2)	Between 17.7 months and 21.2 months

Stage three: Monitoring the execution of projects

The third stage concerns the management of the project and the contract. This stage comprises the normal management of the contract over its lifetime, and also ex-ante checks of participants' cost claims. These ex-ante checks include audit certificates on cost statements established by external auditors, and the processing of transactions through Commission financial circuits to ensure that the transactions authorised are in compliance with the

[32] Decisions for 2013 calls for proposals have not yet been notified

applicable rules.

The payments for TEN-E represent 2.70% of the total payments made by DG ENER

Table 2.14 shows the reductions made to the EU contribution claimed by grant beneficiaries. Ex-ante controls have prevented the payment of €0.51 million, representing 3.1% of the requested EU contribution. The main errors detected in cost claims concern inconsistencies between the information supplied by grant beneficiaries (amount of costs, methods of calculation, periods, etc.) and that included in the audit certificate when submitted, incomplete or missing audit certificates, arithmetical errors, audit certificates not provided by a qualified auditor, costs incurred outside the eligibility period, costs not covered by the legal basis.

Table 2.14 – Ex-ante checks: reductions to the requested EU contribution

Value of EU contributions requested by beneficiaries	Value of the reductions made to the EU contribution through ex-ante checks[33]	Percentage of the reductions made to the EU contribution through ex-ante checks
16,656,335	513,274	3.1%

Another indicator related to the management of projects and contracts is the indicator is 'Time-To-Pay' (TTP),a s shown in Table 2.15 and is also defined as the percentage of payments made within the binding deadlines.

Table 2.15 – Net average time to pay

Net average time to pay	% on time
17.9 days	92.6%

These indicators show that DG' ENER is doing particularly well as the average time to pay for is below the legal deadline of 30 days and the percentage of payments on time is above the Commission's average (82%).

Stage four: Ex-post controls and recoveries

The fourth stage includes the ex-post audits as well as the recovery of any amounts found to have been paid in excess of the amount due. For the overall costs of audits performed, see point 2.1.1.

In 2011, DG ENER implemented an audit plan for the programme which ensures that beneficiaries receiving more than €1 million will be audited, *provided they have not already*

[33] Audit results implementation and budget capping are not included in this amount

been audited due to their taking part in the TEN-E programme. This builds on the 2010 audit plan, which concentrated on those beneficiaries having received a payment of more than €1 million in 2009 or 2010.

At the end of 2013, 26 audits were finalised (13 in 2013, 5 in 2012 and 8 in 2011) and the detected error rate leading to corrections in favour of the Commission was -11.28%. Table 2.16 shows details on the audit coverage of the TEN-E programme.

Table 2.16 – TEN-E audit coverage

TEN-E audit coverage 2009-2013	total payment TEN-E	payments selected(*)	payments of beneficiaries selected (**)	payments selected (€) / total payment TEN-E	payments of beneficiaries selected (€) / total payment TEN-E
Total	90,424,596	63,463,190	75,222,772	84.37%	83.19%

(*) an audit has been launched on the payment
(**) an audit has been launched on the beneficiary; either on a TEN-E grant, or on an EEPR grant (as these grants are similar) by DG ENER or the ECA.

Given the high coverage of 83.19%, the cumulative detected error rate of -11.28% leads to an estimated residual error rate (if all on-going audits are finalised and corrected) of -1.90% (as indicated in the calculation table below).

Total aggregated amount in € of EC share of all cost claims received before end 2013 (P)	90,424,596
Total EC share of all audited beneficiaries, expressed in € (A1)	75,222,772
Total EC share of audited cost statements (A2)	39,941,646
Total amount (€) of negative adjustments as a result of audits (Err)	-4,506,654
Total EC share of audit adjustments (only results in favour of the Commission) not implemented (recovery, offsetting or forecast of revenue) by 1Q2014 (NonImpErr)	0
$ResER\% = \frac{((P - A1) \times (Err / A2)) + NonImpErr}{P}$	-1.90%

When considering the average costs of control at €23,392 and an error rate of -11.28%, only payments of more than €207,376 (23,392/11.28%) should be audited, unless specific risks are identified.

Implementation of audit results

By the end of 2013, the adjustments have been made for 29 participations. The amount of these adjustments was €6,909,277.72 in favour of the beneficiaries. 35% of this amount was implemented by the end of 2013, almost exclusively (99%) through recovery orders. As all non-implemented cases have been identified in 2013, it is not unexpected to have a large number of open cases at this stage.

Table 2.17 –Implementation of TEN-E audit results (2011-2013)

Results from external audits		Adjustments in contradictory procedure		Adjustments implemented	
Number	Funding adjustment	Number	Funding adjustment	Number	Funding adjustment
29	-6,909,277.72	11	-4,480,806.50	18	-2,428,471.22

Conclusion of TEN-E audits

Given that the potential residual error rate calculated is below 2%, reasonable assurance can be given on TEN-E expenditure.

2.1.4 Overall cost-effectiveness for Research programmes, EEPR and TEN-E

An estimation of the **costs** for each stage of the process or per programme is currently not possible. For the next AAR, we will try to gather the available specific information to develop a more detailed analysis in that respect.

The cost information available today concerns:

- FP7: The average cost of evaluation carried out by external experts per proposal :

Average evaluation cost per proposal (done by external experts paid)	€1,808.60

Note that for TEN-E, unlike for FP7, there is no cost of external experts as the evaluation process is carried out by in-house staff

- The estimated cost of internal resources for all ex-post audits, which is €1 756 20034. Added to the cost of outsourced audits, it results in a total cost for the audit function of €2 222 214, which corresponds to an average of €23 392 per audit completed in 2013.

[34] This figure is calculated based on the average staff costs as communicated in the circular note of DG BUDGET to RUF of 08/08/2013

Benefits for each stage of the process are however clearly identified, whether quantifiable or not, as detailed hereunder.

For the evaluation of proposals (stage 1), the benefits provide the assurance that the most excellent projects are selected out of the numerous proposals submitted. The oversubscriptions described earlier for FP7 and TEN-E underlines the importance of this stage of the process, and why the costs are justified.

As far as stage 2 (contracting / notification of individual decisions) is concerned, not only there are some financial benefits (such as for example reduction in the EU contribution as a result of the negotiation process for FP7), but also and mostly, unquantifiable benefits, being mainly related to assuring that excellent performance is obtained within a good legal framework.

For stage 3, related to the monitoring of the execution of projects (whether for FP7, TEN-E and EEPR), quantifiable benefits can be directly derived from the reductions made to the claimed EU contribution through ex-ante checks. It has to be noted that the benefits are necessarily affected by the limitation in the depth of ex-ante controls as part of the overall control framework.

In addition, there are also invaluable qualitative benefits, which provide an assurance that the project is running adequately and so will produce the outputs desired. In other words, the analysis of deliverables is valuable to ensure performance and its appropriate feedback into policy considerations, even if it does not lead to a financial saving.

Finally, for stage 4 relating to ex-post controls and recoveries, audits have a positive deterrent effect within the programme, as many beneficiaries will take extra care over the preparation of their cost claims knowing that audits may follow. The auditors can also avoid future errors by guidance to participants.

In addition the experience of auditors on the ground has been important in many improvements, notably proposed in the legislation and rules for Horizon 2020. For example, one of the drivers for a flat rate of indirect costs was the regular identification of errors in the use of real indirect costs, and the understanding of the complexities of real indirect costs for participants.

Moreover, quantitative benefits clearly derive from the ineligible amounts identified, which are thus in favour of the Commission.

To conclude, although it has not yet been possible to provide a cost-effectiveness ratio of the whole control system, the efficiency of it could be sustained thanks to the quantitative and qualitative benefits, identified for each stage of the process and providing a positive impact on the assurance.

Note that an analysis of the evolution of the efficiency indicators was not possible as this is the first year the DG has calculated and reported these indicators[35].

[35] The indicator on the "time to pay" was available in previous years but at an aggregate level of details, which does not allow relevant comparison.

2.1.5 Fraud prevention and detection

DG ENER has developed its anti-fraud strategy[36] as foreseen in the Commission's overall anti-fraud strategy[37]. The implementation of the remaining actions from the Commission's strategy of relevance for the DG (to make staff better trained and more risk-aware and ensure that EU agencies and Joint Undertakings etc. develop appropriate anti-fraud strategies) have been incorporated in the DG level strategy. DG ENER's anti-fraud strategy is focused on prevention and raising awareness in the day to day work of staff, including through increased information exchanges with our partners in executive and decentralised agencies and other entrusted entities. All but one of the resulting actions will have been fully implemented by the end of 2014.

Internal rules for fraud suspicion handling and reporting are in place and potential fraud risks are considered within the risk assessment exercise for the Management Plan every year. The risk assessment in 2013 did not identify any critical or significant fraud risks. During 2013, 3 new cases were sent to OLAF for investigation by DG ENER. In the same period, OLAF has initiated 1 case which concerns the activities of DG ENER based on other sources of information. Two of these cases were closed as non-cases, while two are under assessment by OLAF. Most of the actions in the DG's anti-fraud strategy will be implemented during 2014 and there is no indication that any additional temporary measures are necessary until full implementation.

[36] Anti-fraud strategy for DG ENER and DG MOVE endorsed 27.11.2013 (ARES(2013)3579143).

[37] COM(2011) 376 24.06.2011.

Table 2.18 – Fraud prevention and detection - indicators

Indicator	Latest known result	Target
Number of files sent to OLAF for investigation in the year.	31.12.2013: 3 files sent to OLAF	No target.
Number of penalty decisions[38] adopted in the year and total amount of these decisions.	31.12.2013: 0	No target
Implementation of actions in the Commission's Anti-Fraud Strategy (CAFS) that are relevant for the DG.	31.12.2013: 15	Targets: 15 by end of 2013, 17 by end of 2014

2.2 Budget implementation tasks entrusted to other services and entities.

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG's supervisory controls on the budget implementation tasks carried out by other Commission services and entrusted entities distinct from the Commission.

As mentioned in "The DG in Brief", DG ENER has entrusted parts of its budget of indirect management implementation by:

- Cross-delegations to other Commission services;
- Executive Agency (EACI);
- Joint Undertaking (FCH JU);
- National Agency (CPMA in Lithuania).
- Decentralised Agency (ACER)

For all these cases, the DG's supervision arrangements are based on the principle of controlling "with" the relevant entity. For details, see the ICT on indirect management in Annex 5.

DG ENER also relies on *joint management* arrangements with the EBRD, EIB and other international financial institutions for the implementation of some actions and financial instruments (see also in the ICT in Annex 5). In addition, DG ENER relies on the Euratom Supply Agency to meet its policy objectives.

[38] As set out in Article 96 of the Financial Regulation and can include the exclusion of the candidate from EU funding and / or the payment of financial penalties.

Cross-sub-delegations

As in previous years, DG ENER has cross-sub-delegated a number of activities to different services within the Commission, in order to arrange the provision of certain operations more efficiently. Being a Commission service itself, the AOD of the cross-delegated service is required to implement the appropriations subject to the same rules, responsibilities and accountability arrangements.

DG ENER gave cross-delegations to DGs PMO, OP, MOVE, DIGIT, ECFIN and RTD for the following amounts and purposes:

- To PMO 23,000€ in order to cover the administrative expenditure of the 'ENERGY' policy area – medical service. This amount was fully committed and 16,132€ of payments were made.

- To DG OP 274,752€ for Research related to Energy. This amount was fully committed and 241.362€ of payments were made.

- To DG MOVE 1,487,506,4€ in order to support expenditure for research activities of the 'Energy' policy area related to expenditure on administrative management, for Competitiveness and Innovation Framework Programme — 'Intelligent Energy — Europe' programme and Research related to energy. This amount was fully committed and 1,465,331.10€ of payments were made.

- To DG DIGIT 886,863.40€ for other management expenditure for research and support activities to the European energy policy and internal energy market. This amount was fully committed and 179,732.06€ of payments were made.

- To DG ECFIN 35,000,000€ for Competitiveness and Innovation Framework Programme- "Intelligent Energy-Europe" programme which were fully committed. Also ECFIN received 10,188,933€ of payment appropriations of which 10,000,000€ was paid.

- To DG RTD 29.208,792€ of commitment appropriations for Research related to energy of which 29,198,995€ was committed. Also RTD received 23,888,432.8€ of payments appropriations which were fully paid.

The cross-delegation agreement requires the AOD of above listed DGs to report on the use of these appropriations. In their reports, the AODs did not communicate any events, control results or issues which could have a material impact on assurance.

Executive Agencies (EAs): EACI

DG ENER is one of four parent DGs for the Executive Agency for Competitiveness and Innovation (EACI), which implements the Intelligent Energy Europe (IEE), Marco Polo, Enterprise Europe Network, and Eco-innovation on behalf of the European Commission. Being responsible for the IEE programme, DG ENER contributed €6.73 million to the Agency's running costs in 2013.

The monitoring arrangements include the membership of the Steering Committee, the definition of objectives and priorities in the Annual Work Programme of the EA (approved by the Commission) and the assessment of the activities carried out by the EA through the Annual

Activity Reports (AARs), which are communicated to the College as an annex to the AAR of the parent DG (see Annex 7). In addition, the EA and the parent DGs[39] have agreed on methods and procedures for interaction. These include the requirement for the EA to report regularly on the use of resources and performance of tasks. The preparation of the EAs' budgets and Annual Work Programmes is coordinated with DG ENER and feedback and guidance is provided to the EA. As a reminder, the management of the Executive Agencies are Commission staff on detachment.

The EAs are subject to audit by the Internal Audit Service of the Commission and by the European Court of Auditors and DG ENER uses their reports as an element of the supervision of these bodies.

The supervision of the EA has continued throughout the year 2013. DG ENER received the draft Annual Activity Report of the agency, coordinated and reviewed by the Steering Committee. The residual error rate is below 2% for all programmes managed by EACI and the Agency Director, in his capacity as AOD, has signed the declaration of assurance without reservations.

In the DAS 2012, ECA found the annual accounts of the Agency legal and regular in all material aspects and that they present fairly in all material respects the financial position of the Agency. The Court made two observations, one related to the independency of the internal audit function, currently combined with ex-post controls, and one on the transparency of the recruitment procedures. The ex-post control function will be segregated from the IAC function as from 2014 and the staff selection procedures have been further improved during 2013.

It is noted that the IAS audit on the control strategy in the EACI resulted in four very important recommendations mainly related to (i) reviewing and formalising the Agency's overall control strategy; (ii) strengthening the ex-ante checks; (iii) separating the ex-post control function from the IAC function and (iv) finalising the anti-fraud strategy and developing guidelines on financial penalties and liquidated damages. The Agency initiated several actions during 2013, including the adoption of the anti-fraud strategy, the establishment of a working group on the control strategy and a review of the organisation in the context of the new MFF which i.a. implies a segregation of the ex-post control and IAC function. Full implementation of all actions is expected in the course of 2014, taking into account the changing structure and mandate of the new Agency as from Jan. 2014, and progress is closely monitored by the parent DGs through the Steering Committee.

To the best of our knowledge, there were no other issues that would need to be raised in this report. Overall DG ENER considers that its supervision of the EA is effective and appropriate.

New mandate of EACI/EASME

As from 1 Jan. 2014, EACI has been renamed to EASME (Executive agency for SMEs)
and will continue to implement the successor to the IEE II, that is the energy efficiency part of the Horizon 2020 programme, along with the legacy of the IEE II. The related
Delegation Act was adopted in December 2013, Commission Decision on the

[39] In 2013, EACI reported to four parent DGs: DG ENER, DG MOVE, DG ENTR and DG ENV.

composition of the Steering Committee and the new Memorandum of Understanding is forthcoming. DG ENER will remain a full member of the Steering Committee of the Agency and most of the operational and control mechanisms are expected to remain in place.

Central Project Management Agency in Lithuania (CPMA) and EBRD for Nuclear Decommissioning

DG ENER has entrusted the implementation of the Nuclear Decommission programme to two implementing bodies - CPMA National Agency (nuclear reactor in Lithuania; no payment in 2013*)* and the EBRD (international decommissioning funds for nuclear reactors in Lithuania, Bulgaria and Slovakia; 2013: €180.30 million*).*

The monitoring arrangements include the Monitoring Committees, chaired by the Commission, together with the Member States who are ultimately responsible for the safe decommissioning of these power plants, as well as the Assemblies of Contributors for the Internal Decommissioning Support Funds (international multi-donor funds). The beneficiaries and Member States report regularly on progress to the Monitoring Committees and the Commission carries out on-site visits at least twice a year. Financial audits (by an external audit company) confirmed overall satisfactory management of the funds. Minor issues with no material impact are being corrected.

Overall DG ENER considers that its supervision of the CPMA and EBRD for the Nuclear Decommissioning programmes is effective and appropriate.

Financial Instruments: European Local Energy Assistance (ELENA facility), Project Bond Initiative and European Energy Efficiency Fund (EEE F)

- The *ELENA facility* is project development assistance under the IEE Programme entrusted to a number of international financial institutions (Council of Europe Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Kreditanstalt für Wiederaufbau). In 2013, DG ENER contributed € 10 million to the ELENA facility. DG ECFIN is responsible for monitoring the management of the instrument and reports regularly to DG ENER.

- The *Project Bond initiative* is a joint initiative by the Commission and the EIB to stimulate capital market, including institutional investors, financing for large-scale infrastructure projects in transport, energy and information and communication technology. In 2013, DG ENER paid €10 million to the pilot phase of the Project Bond Initiative, which has been used for one operation carried out by the EIB (incl. their fees).

Note that no audit has taken place yet as the pilot phase has been launched recently. However, a specific reporting will take place in the framework of Art. 38(5) and Art. 49 of the Financial Regulations.

- EEE F: European Energy Efficiency Fund

The European Energy Efficiency Fund was established on 1 July 2011 through a delegation agreement with the EIB. It includes a EUR 125 million contribution to a newly established Investment Fund vehicle with variable capital (EEE F SICAV-SIF2) that has so far reached a total volume of EUR 265 million, supported by a Technical Assistance grant facility with a budget of

EUR 20 million to provide project development support to potential beneficiaries of the EEE F.

For the EEEF, the Commission nominates two of the four members of the Supervisory Board, which meets at least twice a year, one of the three members of the Management Board, which meets whenever investment and other decisions are required, and one representative of the European Commission for the Annual Shareholder Meeting.

A specific Commission Staff Working Document[40] reporting on a mid-term evaluation was finalised in November 2013 and concluded notably that it was too soon to fully assess cost-effectiveness due to the limited number of finalised projects,

Sound financial management is ensured by the Fund's solid governance structure, and through the reporting and fiduciary duties of the Investment Manager. In addition to due diligence, the Investment Manager ensures that projects comply with the investment guidelines. This includes a regular (quarterly and annual) review of the financial, social and environmental performance of the Fund.

The financial management of the EEE-F is based on investment guidelines and principles laid down by the European Commission and the EIB and follows high banking standards monitored and assessed in the various investment steps. The Investment Manager (Deutsche Bank) produces monthly investment portfolio reports, quarterly reports and annual business plans in which yearly targets are set and impacts on the EEE-F's balance sheet are forecast. The Commission ensures continuous monitoring of the EEE-F at working level and through its representation in the Supervisory and Management Boards of the EEE-F. It is also responsible for approving Technical Assistance requests prepared by the Investment Manager.

To conclude, the regular supervision of these financial instruments did not identify particular issues that would need to be included in this report.

Joint Undertakings: FCH JU

DG ENER contributed to the financing (2013*:* €18.18 million) of the Fuel Cells and Hydrogen JU, for which DG RTD is responsible and has received cross-sub-delegations from DG ENER. The FCH JU is a Joint Technology Initiative (JTI) within FP7, i.e. a public-private partnership between the European Union, the fuel cell and hydrogen industries and the research community. It aims at accelerating development and deployment of fuel cell and hydrogen technologies in Europe.

The operational Directors of DG ENER concerned play a key role in the monitoring of the JU, as these Directors rely on the JU to achieve their policy objectives. DG ENER is a member of the Governing Board of the FCH JU. Arrangements are in place to ensure that all key proposals to the Board are properly assessed and the Commission position agreed. The JU is required to produce an Annual Activity Report and the JU Director signs a declaration of assurance in line with the one used in the Commission. In addition regular reporting and extensive informal and formal contacts are also part of the interaction.

[40] http://ec.europa.eu/energy/eepr/doc/swd_2013_457.pdf

The JUs are subject to audit by the Internal Audit Service of the Commission and by the European Court of Auditors and DG ENER uses their reports as an element of the supervision of these bodies.

In 2013, the SIAC audited the coordination and monitoring of the FCH JU related activities in DG ENER and concluded that the systems and controls in place are adequate and provide reasonable assurance regarding the achievement of the purpose of the coordination and monitoring of the FCH related activities.

The accounts of the FCH JU were not qualified as the residual error rate resulting from their ex-post audits was below 2%. In addition, the regular supervision of the FCH JU did not identify particular issues that would need to be included in this report. Overall DG ENER considers that its supervision of the JU is effective and appropriate.

Decentralised Agencies and other bodies: ACER, Euratom Supply Agency

ACER

DG ENER is the parent DG for the Agency for the Cooperation of Energy Regulators (ACER) which is tasked with assisting national energy regulatory authorities to perform their duties at EU level, coordinating their activities when necessary, and monitoring the wholesale energy markets. In 2013, DG ENER's subsidy to ACER amounted to € 11.93 million.

The operational Directors of DG ENER concerned play a key role in the monitoring of the ACER decentralised agency, as these Directors rely on the agency to achieve their policy objectives. DG ENER is a member of the Administrative Board. Arrangements are in place to ensure that all key proposals to the Board are properly assessed and the Commission position agreed. In addition regular reporting and extensive informal and formal contacts are also part of the interaction.

In 2013, the SIAC audited the supervision and monitoring of ACER in DG ENER and concluded that the systems and controls in place are adequate and provide reasonable assurance regarding the achievement of the purpose of the ACER supervision process.

In the DAS 2012, ECA found the annual accounts of ACER legal and regular in all material aspects and that they present fairly in all material respects the financial position of the Agency. The Court made five observations, one related to the school fees allowance paid to Agency staff, three related to technical budgetary issues and one related to the transparency of recruitment procedures. The agency has provided replies and justifications in relation to the observations and will further improve the recruitment procedure.

The regular supervision of ACER did not identify particular issues that would need to be included in this report. Overall DG ENER considers that its supervision of ACER is effective and appropriate.

Euratom Supply Agency

The Euratom Supply Agency is neither a decentralised nor an executive agency. It was set up in 1960 to ensure that all users of nuclear energy in the EU receive a regular and equitable supply of ores and nuclear fuels. It reports directly to the Commission (not to DG ENER) which can veto its Director-General's decisions. Its Director-General has to consult an advisory committee,

composed of most Member States, on most decisions. The Commission is not represented in this Committee.

Since 2012, the agency receives a contribution directly from the Commission's budget of €98,000 (during 2008-2011, DG ENER bore the agency's expenses under its own budget).

In the DAS 2012, ECA found the annual accounts of ESA legal and regular in all material aspects and that they present fairly in all material respects the financial position of the Agency. The Court emphasised the matter of financial autonomy of the Agency pointing at contradictory provisions of two articles in the Agency's Statutes.

In conclusion, the regular supervision of ESA did not identify particular issues that would need to be included in this report. Overall DG ENER considers that its supervision of ESA is thus effective and appropriate.

2.3 Assessment of audit results and follow-up of audit recommendations

This section reports and assesses the observations and conclusions reported by auditors which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

2.3.1 Internal Audit Service (IAS)

- The "Audit on the European Energy Programme for Recovery" was completed in June 2013. It recognised DG ENER's continuous efforts to manage the EEPR programme in an effective and efficient way. It assessed that the internal control system in place provides reasonable assurance regarding the achievement of the business objectives set up for the EEPR, but recommended to reinforce project management and risk management, in particular for delayed projects, and to reinforce ex-ante and ex-post controls as well as other measures to strengthen public procurement monitoring and implementation.

  DG ENER has taken actions (ex-ante and ex-post controls as well as project monitoring and risk management have been strengthened) to address the two very important recommendations: the detailed action plan is well advanced, with 5 out of 7 sub-actions with target dates in 2013 implemented, while 2 sub-actions will be completed in early 2014 and followed by the 4 sub-actions with target dates in 2014.

  The "Audit on the Control Strategy in the Executive Agency for Competitiveness and Innovation (EACI) was completed in July 2013 – as one of the parent DGs, DG ENER has used this report as an element of the supervision of the Agency. The audit concluded that the internal control system in place provides reasonable assurance regarding the achievement of the business objectives set up for the EACI's control strategy, but recommended improvements to the assurance building process and disclosure of the assurance, strengthening ex-ante and ex-post checks and developing an anti-fraud strategy. The Agency has undertaken several actions in 2013 to address these very

important recommendations and full implementation of all action steps is planned in 2014, taking into account the changing structure and mandate of the new Agency from 1 Jan. 2014.

As regards the implementation of recommendations issued in previous years:

- The IAS performed a follow-up of the 2012 "Audit on the control strategy in DG ENER" and concluded that the very important recommendation on completeness and consistency of audit working papers had been partially implemented. The remaining action steps will be completed in the course of 2014 and the IAS has downgraded the recommendation to important.

- The IAS also completed in April 2013 a follow-up audit on "Compliance with Payment deadlines", as a result of which all the outstanding recommendations issued in the original report could be closed.

2.3.2 Shared Internal Audit Capability (SIAC)

The Shared Internal Audit Capability carried out, in accordance with its work plan, 6 audits during 2013, of which 3 were related to DG ENER:

- An audit of the impact assessment function;
- An audit of the coordination and monitoring activities related to the Fuel Cells and Hydrogen joint undertaking;
- An audit of the supervision process of the ACER Agency;

The audit of the impact assessment function (finalised in Jan 2014) contained a very important recommendation on the roles in the internal impact assessment process, resulting in a satisfactory opinion with qualification. The action plan is under elaboration by DG ENER. The other two audits resulted in satisfactory opinions. As a parent DG, DG ENER has used the reports on the FCH JU and ACER as an element of the supervision of these entities.

Follow-up activities covered 4 audits and 14 recommendations, of which 5 were rated as very important. The follow-up concluded that all 5 very important recommendations have been adequately and effectively implemented (2 from the 2012 audit on technical and financial implementation of CCS and OWE projects financed under the EEPR, 3 from the 2012 audit of the implementation of ICS 10 – business continuity).

In addition, SIAC carried out 3 reviews (of the financial processes, the IT processes and the accounts cut-off process) and found the reviewed processes generally adequate and effective. The identified opportunities for improvement/evolution of the processes are being addressed by DG ENER.

In its Annual audit opinion for 2013, the SIAC concluded that, based on the audit work carried out and on other elements available, the internal control systems in place in DG ENER provide a

reasonable assurance[41] regarding the achievement of business objectives set up for the processes audited, except for the specific qualification resulting from the above mentioned 2013 audit of the impact assessment function and from one very important recommendation from the 2012 audit of the support programme to Nuclear Decommissioning. An action plan is under preparation and will be implemented in 2014 to address the first one, while for the latter actions on strengthening the monitoring process are in progress and due to be completed in June 2014.

As can be seen below, management has accepted 100% of issued audit recommendations. As regards their implementation, 85.7% of the accepted very important and important recommendations were implemented within deadlines.

Table 2.19 – Internal audit indicators

Specific objective 4 Assess compliance, efficiency and effectiveness of control systems, provide advise the Director-General		
Indicator	Latest result	Target
% of "critical", "very important" and "important" accepted audit recommendations implemented within deadlines / number of accepted recommendations (SIAC)	31/12/2013 : 85.7% 31/12/2012 : 87%	>70%
% recommendations accepted by auditees / number of recommendations issued (SIAC)	31/12/2013 : 100% 31/12/2012 : 100%	>80%

2.3.3 European Court of Auditors (ECA)

a. Audit work 2013 - Statement of assurance (DAS) 2012

In the context of DAS 2012, the ECA assesses *Energy* together with *Mobility and Transport* and the R*egional policy*[42]. The ECA concluded for the whole chapter that the testing of transactions indicates that the most likely error present in the population is 6.8%, that the examined supervisory and control systems are partially effective[43] and that the overall audit evidence indicates that accepted expenditure is affected by a material level of error. Given that *Energy* payments represent 1.8% of the total of the whole chapter, the ECA's overall conclusions are not representative for DG ENER.

[41] Even an effective internal control system, no matter how well designed and operated, has inherent limitations – including the possibility of circumvention or overriding of controls – and therefore can only provide reasonable assurance to Management and not absolute assurance.

[42] Chapter 5 of the ECA's annual report 2012 *(OJ C 331, vol. 56, 14.11.2013)*

[43] This assessment was made on Audit Authorities in the context of Regional Policy and Employment and social affairs. It does not concern DG ENER.

The ECA sampled 3 payments and found errors:

1. in a payment from the Intelligent Energy Programme managed by the EACI[44];
2. in a payment from the EEPR programme (Use of inappropriate type of tendering procedure and inadequate scope of audit certificates). The Commission disagreed with both observations and no follow-up action is required.

The third payment related to the nuclear decommissioning programme in Slovakia and the ECA did not issue any observation.

The findings of the ECA on which the Commission agreed are subject to a systematic follow-up.

The ECA did not sample any of DG ENER's payments for research; however, their conclusion for the policy group Research and other Internal Policies, that the audit evidence indicates that accepted expenditure is affected by material error applies by analogy to such payments made by DG ENER.

The ECA recommended that in the area of the research FPs, the Commission should[45]:

(i) Further intensify its efforts to address the errors found in interim and final payments and clearings, in particular by reminding beneficiaries and independent auditors of the eligibility rules and the requirement for beneficiaries to substantiate all declared costs;

(ii) Remind research FP project coordinators of their responsibility to distribute the funds received to other project partners without undue delay;

(iii) Review the cases of weaknesses in ex ante checks identified by the Court in order to assess of the checks require modification;

(iv) Reduce delays in the implementation of ex-post audits and increase the implementation rate for extrapolation cases.

The Commission accepted the Court's recommendations. The follow-up actions are described in details in DG RTD's AAR 2013.

In addition, still for the purpose of the 2012 Statement of Assurance, the Court performed an audit of the accounts of DG ENER as at 31.12.2012. This included analysis of closure operations, substantive testing of invoices and pre-financings and analysis of cut-off data. No observations were issued. The Court noted a point which related to the accounting treatment of an entity where DG ENER is a shareholder (EEE F).

b. Audit work 2013 – Special reports

In 2013, DG ENER was not the lead DG for any of the reports published by the Court.

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[44] *The ECA qualified as a serious other compliance issue the late transfer of funds by the coordinator to the co-beneficiary. The Agency reports on this in its AAR 2013 (see annex 7)*

[45] *OJ C 331, vol. 56, 14.11.2013, paragraph 8.42*

c. Follow-up of recommendations issued in previous years

In the context of DAS 2011, the ECA identified errors related to the application of public procurement rules by beneficiaries of EEPR grants these were carefully considered by the AOD, who issued a related reputational reservation in his AAR 2012. DG ENER has continued implementing the strengthened control strategy put in place last year:

- Ex-ante checks
  DG ENER has ensured that the checks on procurements are incorporated in the financial workflows.
- Ex-post checks
  DG ENER has decided to audit 100% of final payments as well as first interim payments to ensure that, at the end of the programme, all possible overpayments will have been identified and . For the interim payments, the analysis of the public procurement procedure should normally have been done already through the audit of the first interim payment. The risk at this stage is more limited and the audit would then focus more on purely financial aspects. The decision to carry out an audit will be made on a case-by-case basis.

DG ENER has also to implement one correction to errors detected by the ECA in its 2008 Annual Report, concerning ineligible costs in the nuclear decommissioning funds. The Assemblies of Contributors have given their approval to the recovery of the ineligible expenditure.

2.3.4 Overall conclusion

Overall, internal and external audit work contributes significantly to the continuing improvement in DG ENER systems and operations. The IAS and SIAC make recommendations that are subject to a systematic follow up by the Directorate-General. After reviewing these cases, it is concluded that internal audit work does not reveal weaknesses that would require a reserve in this report.

The findings and recommendations of the ECA are similarly subject to a systematic follow-up. Action plans have been put in place and implemented. The overall findings of the ECA in respect of the error rate are supported by the findings of the Commission's own controls, and the effect of this on the Director-General's declaration of assurance is set out in Part 4.

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

DG ENER has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

The DG's annual review of its implementation of the Internal Control Standards (ICS 15) was based on a number of monitoring measures and sources of information including:

- Progress with implementing the actions necessary to reach the requirements of the internal control standards prioritised for 2013;
- The opinion of staff members responsible for different internal control requirements, the opinion of a sample of senior management, and a discussion in the Internal Control Correspondents Group;
- The results of SIAC, IAS and ECA audit work;
- Progress with implementing actions stemming from audit recommendations;
- The opinion of the internal control coordinator and staff working on internal control;
- The opinion of a sample of staff members in response to electronic survey.

Furthermore, the information on internal control issues received through the AOSD's Management Reports and the SIAC's Opinion has been taken into account as well. This analysis has enabled the internal control coordinator to report the state of internal control and his recommendations to the Director-General.

In addition, DG ENER continued monitoring the critical and other significant risks identified in the 2013 risk management exercise (no cross-cutting risks were identified) and regularly discussing internal control issues in the Control Board. The functioning of the internal control system has also been closely monitored throughout the year by the systematic registration of deviations from the established processes and procedures in the Registry of Exceptions and Non-Compliance Events (no serious deviations of systemic nature were identified).

In its management plan for 2013, DG ENER had foreseen measures to improve the effective implementation of ICS 3 and ICS 10:

ICS3 – Staff Allocation and Mobility: Prioritised to ensure that efforts to align the organisational structures and staff allocations with priorities and workload continue in the context of increasing resource constraints. An action plan was implemented in 2013 resulting i.a. in a report on DG ENER AD officials' profiles and mobility and the organisation of a first round of mobility.

ICS10 – Business Continuity: Prioritised to ensure that the DG's Business Continuity Plan (BCP) is up-to-date, taking into account the latest guidance from the SG, the procedures and roles are known and the system has been tested. An action plan was implemented in 2013 resulting i.a. in an updated BCP, a first training session was organised and further trainings and work on testing the system will continue in 2014.

For ICS 3 and ICS 10, the measures were assessed as satisfactorily implemented by the end of the reporting year. For both standards, efforts will continue in 2014 and beyond as the effective management of staff allocation and mobility and of business continuity are continuous processes. The assessment review identified an opportunity to increase effectiveness (and prioritise for 2014) ICS 5 (Objectives and Performance Indicators) and ICS 14 (Evaluation of Activities), taking into account the Commission's commitment to further developing a performance-focused framework and in order to support efforts already underway in DG ENER. The work to finalise and continue actions under the internal control standards prioritised in 2013 and the further improvements to increase effectiveness of ICS 5 and ICS 14 do not have a significant impact on assurance during the reporting year.

Concerning the overall state of the internal control system, generally the DG's staff have the required knowledge and skills and systems and procedures are in place to manage and mitigate the DG's exposure to key risks to the achievement of the DG's objectives. Further enhancing the effectiveness of the DG's control arrangements in place is an on-going effort in line with the principle of continuous improvement of management procedures.

Particular attention will continue to be paid to addressing overpayments in personnel and indirect costs in research payments. Particular focus is also being put on monitoring and addressing delays in implementation and public procurement issues linked to sub-contracting in EEPR projects. The measures taken are described in part 4.

In conclusion, the internal control standards are, to the best of our knowledge, effectively implemented. In 2013, DG ENER has taken measures to further improve the efficiency of its internal control systems in the area of Staff allocation and Mobility and Business Continuity. In 2014, the areas of Objectives and Performance Indicators and Evaluation of Activities will be the focus of additional management attention.

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draw conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservation(s).

4.1 Review of the elements supporting assurance

The information in sections 2 and 3 comes from monitoring by management and auditors. It results from a systematic analysis of the available evidence. This approach results in an adequate coverage of the budget delegated to the Director-General of DG ENER and provides sufficient guarantees of the completeness and reliability of the information reported.

Management has reasonable assurance that overall suitable controls are in place and work as intended; risks are being mitigated and/or monitored; improvements and reinforcements are being implemented.

DG ENER has developed its anti-fraud strategy and most of the actions foreseen will be implemented during 2014 and there is no indication that any additional temporary measures are necessary until full implementation. The risk assessment in 2013 did not identify any critical or significant fraud risks.

As to the results from audits and internal control assessment during the reporting year, they give an overall positive feedback and did not include any critical findings. The residual risk from the audit recommendations remaining open is not considered to have a bearing on the declaration of assurance.

Overall the controls carried out by DG ENER for the management of the budget, whether implemented directly or indirectly were effective, as can be concluded from the qualitative and quantitave benefits detailed in the previous sections.

The reservation on FP7 expenditure on reimbursements against cost statements is maintained, as set out in section 4.2 below.

However, as indicated in section 2.1.2., DG ENER has decided to lift the reputational reservation for EEPR issued in the AAR 2012, even though there is still a potential risk of errors by EEPR beneficiaries of not respecting public procurement rules when subcontracting.

The decision to lift the reservation on EEPR is based on 2 reasons: firstly the residual error rate is 1.63%,, below the materiality threshold of 2%, and secondly the appropriate corrective measures have been taken as of 2013 to eliminate the risk, as indicated in the AAR 2012. Not only has DG ENER strengthened its ex-ante controls, but DG ENER has also decided to audit 100% of the final payments as well as many first interim payments, so that by the end of the programme all possible overpayments will have been identified.

4.2 Reservation and overall conclusion on assurance

No	Title	Type (Financial or Reputational)	2013 amount at risk (in million euros)	ABB amount concerned i.e. scope (in million euro)
1	Reservation on FP7 overpayments	Financial	5.27	113.97

Reservation on FP7 overpayments

Table 4.1 summarises the elements constituting the reservation.

Table 4.1: reservation on FP7 overpayments

DG	ENER
Title of the reservation, including its scope	Reservation concerning the rate of residual errors with regard to the accuracy of cost claims in Seventh Framework Programme (FP7) contracts.
Domain	Internal policy / Direct centralised management of grants under FP7
ABB activity and amount	Payments made for FP7 research activities related to energy: €113.97 million[46]
Reason for the reservation	At the end of 2013, the residual error rate is not below the materiality threshold foreseen for the multi-annual period (2%)
Materiality criterion/criteria	The materiality criterion is the residual error rate, i.e. the level of errors that remain undetected and uncorrected, by the end of the management cycle. The control objective is to ensure that the residual error rate on the overall population is below 2% at the end of the management cycle. As long as the residual error rate is not (yet) below 2% at the end of a reporting year within the FP's management lifecycle, a reservation would (still) be made.
Quantification of the impact	DG ENER's residual error rate is 3.81% audits regarding FP7 projects. This rate does not take into account corrections in favour of beneficiaries. The maximum impact is calculated by multiplying the residual error rate in favour of the Commission by the amount of FP7 payments clearing previous prefinancing in 2013 (€138.35 million) . The amount at risk in 2013 is €5.27 million.
Impact on the assurance	Legality and regularity of the affected transactions, i.e. only payments made against cost claims (interim payments and payments of balance). The assurance is affected within the scope of the quantified budgetary impact. The amount at risk of €5.27 million represents 0.85% of DG ENER payments in 2013[47]. Consequently reasonable assurance can be provided.

[46] The amount reported in Annex 3, table 2, column 2 "payments made" show a total of €143.66 million, including also payments made for FP6 and FCH JU.

[47] *5.27 million of 622.86 million*

DG	ENER
Responsibility for the weakness	The main reason for errors is : a) the complexity of the eligibility rules as laid down in the basic acts decided by the Legislative Authorities, based on the reimbursement of actual eligible costs declared by the beneficiaries; b) the fact that there are many thousands of beneficiaries making claims, and not all can be fully controlled. The different control provisions set out by the Commission services, along with the audit certificates on financial statements and ex-post audits, can mitigate these risks to a certain extent, but can never be carried out on 100% of the cost claims received.
Corrective action	The possibilities to simplify the FP7 rules have been exhausted, although there is some evidence that the simplification measures introduced in 2011 have had a positive impact on error rate. The remaining scope to reduce errors will be addressed in particular through the following actions: - continuing its on-going efforts to give guidance and feedback to the participants and certifying auditors to prevent errors occurring; - continuing with its control and audit work in order to further reduce the FP7 residual error rate.

The following framework conditions need to be borne in mind when considering remedial actions to further reduce the error rate under FP7 as detailed in the above table. These were set out in more detail in the AAR 2012.

A) Legal Framework

At a moment where the rules for participation for Horizon 2020 are in the final stage of adoption and having regard to the length of the legislative procedure, a modification of the legal framework for FP7 is not an option. Over the course of FP7, however, the Commission has attempted to simplify the system within the existing legal framework, most recently through the simplification measures adopted on 24 January 2011 (Decision C (2011) 174).

A radical simplification of the legal framework has been proposed in Horizon 2020, the Framework Programme for Research and Innovation (2014-2020), in order to meet the expectations of both stakeholders and legislative authorities.

B) Guidance to beneficiaries and certifying auditors

In 2009 DG ENER started a campaign (information session) targeting its beneficiaries from FP6 and FP7. This campaign was stopped in 2011 as this type of action has now been decided at the level of the whole research DGs. 2013 saw the continuation of a communication campaign targeting beneficiaries and certifying auditors, based on a document setting out the 10 most common causes of error. Around 3100 people have participated in the 24 events held so far. The aim is to continue this campaign in 2014.

This is in addition to the possibilities that already exist for participants to ask for guidance – for example the Research Enquiry Service and the National Contact Points.

Furthermore, as SMEs and new participants present particular risks, guidance will be tailored at all stages of the process to these participants, but without discouraging them from applying for

grants or increasing unnecessarily their administrative burden.

C) Continued control and audit

The DG will carry out an appropriate number of ex-post audits based on cost-effectiveness considerations, together with the subsequent recovery actions to ensure a further reduction of the residual error rate. However, it cannot greatly extend its audit campaign without adversely affecting the other objectives of the research programme (attractiveness, reduction of administrative burden, widening, etc.)

Overall conclusions on the combined impact of the reservation(s) on the declaration as a whole

The potential amount at risk deriving from the 3.81% residual error rate detected in the FP7 represents only 0.85% of the total amount paid by DG ENER in 2013. So, the assurance is only affected within the scope of the quantified budgetary impact.

For the EEPR programme, the reservation is lifted as the residual error rate is well below the 2% and as the appropriate corrective actions have been put in place in 2013 to ensure that, by the end of the programme, all possible overpayments will have been identified.

Therefore, on the basis of the supervision and monitoring activities performed, DG ENER considers that resources are used for the intended purposes and in accordance with the principles of sound financial management, legality and regularity.

In addition, adequate internal systems and controls are in place and risks are being appropriately monitored and mitigated

Consequently, reasonable assurance can be provided for the whole of the budget managed by DG ENER.

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of DG ENER

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[48].

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

However the following reservation should be noted:

The residual error rate observed by ex-post controls on grants given under the Seventh Research Framework Programme is higher than the control objective (2%).

Done in Brussels, 28.03.2014

<Signed>

Dominique Ristori

[48] True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.