

Katowice, 02.07.2013

**Directorate-General Energy
European Commission**

ZRF/KF/145 /2013

RE: Consultation on Green Paper on a 2030 framework for climate and energy policies

Dear Sirs,

TAURON Polska Energia SA welcomes the opportunity to express its views on the published Green Paper 2030 on a 2030 framework for climate and energy policies. We share the opinion that a document setting out the long-term directions of development is much needed, however it must be of general scope and must not impose any binding targets in the perspective of 17 years without conducting in-depth analyzes confirming their feasibility beforehand.

The priorities of the EU-wide climate and energy policy should in the first instance take under consideration:

- **Guaranteeing the competitiveness of the Member States' economies on the global markets, what should be done by preserving from the unnecessary increase in energy prices. The current proposals of the Green Paper lead to quite opposite results.**
- **Ensuring the security of supply (in particular the continuity of supply). While promoting a large share of renewables in the power generation this aspect seems to be neglected.**
- **Keeping all options open ("*technology neutrality*") and preferring market-based actions that alone will promote the best and cheapest solutions. Interfering with the energy mixes of the Member States is contrary to the provisions of the Treaty on the Functioning of the European Union.**
- **Adjustment of different tools for realization of different targets. The proposal that the EU ETS would serve reducing emissions at the lowest cost and at the same time would be the stimulus for the development of low-carbon technologies and a way to**

boost innovations is self-contradictory. This could be done only by using different instruments.

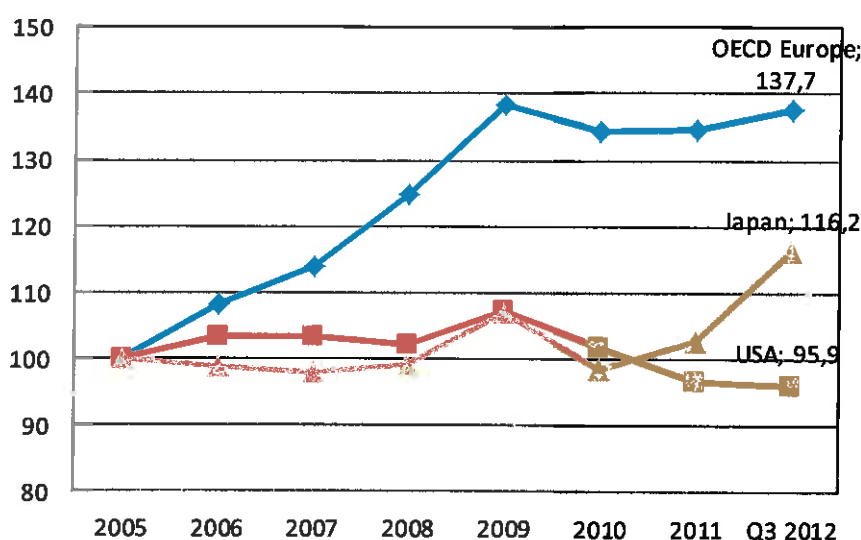
Unfortunately, the proposal of Green Paper in the presented form is premature. Its implementation leads to an unjustified increase in electricity prices which will result in weakening the competitiveness position of the EU economies (particularly those in which the important role is played by energy-intensive industries), moving the production outside the EU and imposing additional burden on households. It also discredits the importance of the technologies that have been used so far, what from the point of view of energy independence and security of supply is a disadvantageous solution.

Furthermore, the proposals deviate from the market-based mechanisms through:

1. Dedicating a large part of the market for RES technologies, which despite that fact that are well known and have been used for many years, are still too expensive. This is an example of state aid mechanism on a large scale.
2. Advocating for the higher prices of emission allowances within the EU ETS, which leads to manipulation of the MS energy mixes and is an attempt of the market "hand-steering".
3. Imposing by the political decisions a large share of renewable sources which will negatively influence the stability of transmission and distribution grids forcing the operators to undertake costly and unnecessary investments, which under normal circumstances would have not occurred. In addition, it strongly deteriorates working conditions of other sources forcing them to work for less time or imposing the load regime that is in contradiction to the technical nature of these units - for example, the real possibilities of a quick load changes.

All of this leads, unfortunately, to electricity prices increase, which is clearly visible in the Graph 1.

Graph 1 – Electricity prices (source: International Energy Agency, Energy Prices and Taxes, 4th quarter 2012)



The proposals of the energy policy 2030 are formulated prematurely because:

1. The targets agreed in the Climate Package, despite the enormous costs that have been borne by Member States, are realized faster than it was assumed.
2. There is no global agreement on further commitments to reduce emissions, which is a prerequisite for deepening the EU target on emission reduction (ETS Directive). *"Leading by example"* approach has proved to be inefficient. What is worse – Canada officially withdrew from its obligations under the Kyoto Protocol.
3. We are witnessing the serious economic crisis in the European Union and the issue of high energy prices has led to the collapse of the government in Bulgaria and is raised in the public debate in Germany.
4. Both Roadmap 2050 and Energy Roadmap 2050 are not legally binding documents for the Member States. Therefore, referring to them is unjustified.
5. No reliable impact assessment analysis showing the impact of proposed policy on the individual Member States' economies has been presented.
6. The proposals of moving a part of revenues from the auctioning of emission allowances from the budgets of the Member States to the EU budget are in total

contradiction with the findings of the negotiated provisions of the Climate Package. Until now, no agreement has been obtained in this subject.

Detailed comments:

1. The paper refers to the targets set out in the Roadmap 2050 (89-95% reduction of GHG by 2050) as if they were binding whereas Roadmap has not been adopted by the Council of the European Union. Thus, these references are unjustified.
2. Although in the document on renewable energy sources (accompanying the Green Paper 2030) the Commission itself states that at the moment fulfillment of the RES target of the Climate Package is not endangered, it proposes to establish a new target - 30% in 2030. It is unreasonable favoring the "green" technologies, which already are subject to the substantial subsidies. This is also contrary to the principal rule of the market, which originally was meant to be "*technology neutral*". In addition, increasing the share of renewable sources in energy production leads to serious problems with the energy grids. Moreover, keeping the conventional and nuclear units as a backup capacity for RES will become extremely unprofitable, and will be harmful for these units from a technical point of view.
3. In a number of places in the text, the Commission suggests that the development of RES is a major source of new jobs in the EU, as well as a stimulus of economic growth. However, the Commission does not show that these jobs created as a result of its proposals apply only to selected EU countries. In other Member States, there would have been a significant reduction in jobs (power sector, energy-intensive sectors), and the number of the created jobs in the renewable energy sector would be lower and they will be inferior (in terms of quality) in comparison with the lost workplaces.
4. In addition, it is proposed to increase the CO₂ reduction target to 40% by 2030. A catalyst of change is meant to be the reform of the ETS system resulting in a significant increase in the price of permits. Therefore, it would be the next intervention in the energy market. In accordance with the previous arrangements (ETS Directive) enhancing the reduction target should take place only in the event of ratification of an international agreement on climate change. Such negotiations are still being carried

out without much success (major emitters still refuse to make any commitments), thus setting by the European Commission too ambitious climate targets would be a serious blow to the economies of the Member States, as well as to the EU economy (including higher prices for EU products, carbon leakage).

Answers to the questions posed in the paper

General

- **Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?**

Taking into account the fact that energy prices within the EU have risen significantly since 2009 (adoption of the Climate Package) in comparison with the other global economies and, at the same time the biggest CO₂ emitters (China, India, USA, Russia) still do not share the EU ambition in the field of emissions reduction, the European Union should thoroughly rethink its Climate Policy. In this context, the external factors as: competitiveness and security of supply of the whole EU, as well as of the individual Member States should be taken under consideration in the first place. The competitive position of the EU products cannot be sacrificed in the name of combating the climate change which – as everybody already is aware of that – 27 (soon 28) European countries cannot do on their own. We cannot make the same mistake twice. Therefore, the EU should wait for the result of the negotiations on the International Climate Change Agreement in 2015. If the non-EU countries commit to some binding emission targets, then the Member States may consider their new EU-wide climate post 2020 strategy that would be affordable and achievable for all the EU societies.

Furthermore, a single and competitive energy market should be a precondition for setting any long-term climate and energy policy. Only properly implemented rules of the common EU market can create a level playing field for all generation technologies what will result in affordable energy prices for consumers (the most cost-effective technologies will dominate over those less effective). Moreover, competition on a single market will be a decisive factor in case of boosting the innovation in all low-carbon technologies which deployment is now endangered. Therefore, in the first instance the Single

Market (as assumed in the 3rd third European Energy Liberalization Package) should properly work in practice and not in theory as it is now.

Targets

- **Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?**

As stated above, in our view the global agreement on the climate change should be adopted first. Only after the ratification of the global deal the Member States will be able to evaluate their potential inputs in the 2030 climate and energy policy in a viable manner. Going back to national emissions reduction targets as in the case of the Kyoto Protocol should be taken into consideration. Such a goal, set for each country, has to be realistic (in other words – achievable) meaning it would take into account a level of economic development, specific factors (inter alia: geographical location, weather conditions, resources, social situation etc.), it would not distort the competitiveness of its economy and it would ensure the security of supply and energy independence. Expanding the ETS system for the other sectors also should be taken into consideration in the 2030 perspective.

In case of energy efficiency, we share the opinion that the Energy Efficiency Directive (EED) revision should be provided first. There is no use in setting a new target on the primary or final energy use without the results of Commission's analysis on that subject (planned in 2014).

Furthermore, there are three pillars of the EU energy policy: **security of supply, competitiveness, and sustainability** that must not be ignored. Thus, an EU-wide energy security target should be introduced to the new climate strategy in order to ensure the proper level of energy independence and use of indigenous energy sources for each MS and EU as a whole.

- **Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?**

In our opinion there is no inconsistency between the 20-20-20 goals. Moreover, we believe that the ETS has proved to be a properly designed

mechanism, as it has helped to reduce carbon dioxide emissions on the EU territory in a cost-effective way.

- **Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO₂ reductions for passenger cars and light commercial vehicles?**

As the power sector has already made a huge effort over the past few years to successfully reduce its carbon footprint, there is an urgent need for other energy-intensive sectors to follow this path. In particular, the transport and buildings sector have the potential to reduce their emissions. Therefore, the next should be providing an analysis estimating the level of emission reduction that can be achieved, followed by a strategy for both sectors based on the legal proposals in terms of emission targets.

- **How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?**

The targets should be adjusted to the technologies development and not the other way round. *Casus* of Carbon Capture and Storage technology has shown that a technology can be taken into account in fulfilling a goal only if it has already reached the commercialization phase on the market. Otherwise, any plans made on the uncertain projections will be a wishful thinking rather than a realistic possibility. Therefore, a long-term energy strategy including targets should be more market-oriented than it was in 2008 when the Climate Package was negotiated.

- **How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?**

Security of supply is one of the central pillars of the EU Climate Policy. Thus, its importance cannot be diminished. As stated above, in our opinion setting an EU-wide security of supply target (expressed in % of the indigenous fuel use) would be an important step forward to guarantee the energy independence of the Member States. This could be done e.g. by providing special treatment for energy from indigenous fuels – in a direction of an existing provision in the Electricity Directive 2009/72/EC, which allows

Member States to provide priority dispatch for generating installations using indigenous sources for 15% of the overall primary energy consumed in the Member States in a given year.

Instruments

- **Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?**

As laid down in the Lisbon Treaty, the choice of the energy mix is left to the Member States' decision. For this reason, the EU-wide climate and energy strategy should take into account the individual situation of each EU country (including its geographical conditions, fuel structure, economic and social situations, etc.). We realize that there is a lot of work and time needed to produce such an analysis, however at the same time we believe that it would be a solid base for the future long-term climate and energy policy, as well as potential national targets.

- **How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?**

We believe that cost-efficiency of any targets can be achieved only if there are taking into account a number of important factors (mentioned above) that differ from country to country. Obviously, the situation is dynamic. No one can precisely foresee what will happen in the next 10-20 years, therefore the Member States should have the freedom to choose the measures that suit them best at a given time to achieve the realistically set goals.

- **How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?**

In order to boost the investment in the power sector, all efforts should be concentrated in the first place on the implementation of the internal market, so it would work in practice. At the same time, the capacity mechanisms should be laid down by the EC (in the form of non-binding guidance) in order to ensure a proper functioning of the EU-wide energy system.

- **Which measures could be envisaged to make further energy savings most cost-effectively?**

The choice of energy efficiency measures, as any other, should fall within the competence of each Member State. There should be no additional burden introduced in the form of new obligatory targets or energy efficiency standards because power sector is already subject to the ETS and IED regulations promoting investments in best available technologies.

- **How can EU research and innovation policies best support the achievement of the 2030 framework?**

It seems that the main role should be played by the EU funding. In particular, the EU funds should be dedicated to the CCS (and very promising technologies of Carbon Capture & Utilization – CCU) and energy storage technologies in order to ensure the security of supply and grid stability in time of increasing quantity of intermittent sources in the power system.

Competitiveness and security of supply

- **Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?**

The main emphasis should be placed on the domestic technologies. In consequence, Member States would be able to focus on developing the technologies they know best. This approach would ensure the cost-efficiency of the process both on the MS and EU levels and would guarantee that all generation technologies are taken under consideration (RES, nuclear, fossil fuels) what is in line with the idea of “*technology neutrality*”. In order to optimize job creation, we should analyse prior to enforcement of further targets the net impact of the “green revolution” on employment in Europe. This should be done by estimating also the amount of jobs which will be lost in respective EU economies (not only the amount gained). Furthermore we should develop mechanisms to preserve the competitiveness of the energy intensive industry.

- **What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?**

Carbon leakage phenomenon is a fact, however we lack some reliable data that would be able to support this process. Nevertheless, the process moving the production from the EU to the third countries is happening on a daily basis. It can be mainly seen in the energy-intensive sectors that close their plants on the EU territory and open new ones in China, India or USA in order to reduce the costs of production that is based on the energy price. Alongside with the profits, Europe loses the valuable jobs in favour of the non-EU countries. Therefore, this problem should be analysed in detail and this evaluation should be done as soon as possible.

- **What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?**

As shown on the graph above, the energy prices that reflect the energy costs are steadily increasing in the EU on the background of other global market players, in particular US (shale gas revolution). There are several reasons for this, mainly costs of RES support schemes, CO₂ as well as taxes. These cost components are absent or much less severe in energy prices in other parts of the world. As the energy cost is an important factor in terms of ensuring competitiveness of the EU industries on the global markets, this problem should be treated with due care.

- **How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?**

As stated above, reaching the international climate change agreement should be a prerequisite for any further commitment that is to be made by the EU. Therefore, in the first place we should wait for the leading non-EU economies to make a move towards setting obligatory emission targets because "leading by example" did not bring the expected effects.

- **How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?**

Stability and predictability of the regulatory framework are key to ensure investment certainty, especially in the power sector where the investments are

planned for decades ahead. Therefore, what we do not need is more political intervention on the market (in the form of backloading or structural measures) as it changes the system from market-based towards politically regulated and in result ETS is seen provides less regulatory certainty for investors.

- **How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?**

We believe that EU funds should be more innovation-oriented in the new 2014-2020 perspective that it is at the moment. If we want to become global leaders in the field of emerging power technologies, we need to spend more financial resources on developing the most perspective ones. We welcome the EC paper on "*Energy Technologies and Innovation*" where the greater emphasis is placed on the implementation phase. However, by keeping the "*technology neutral*" approach different technologies (RES, nuclear, fossil fuels) should be supported. As for the revenues from the allowances auctioning, they could be used by national governments to help stimulate research and innovation activity in respective Member States.

- **How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?**

As mentioned above, one way of solving this problem is to set a quantified EU-wide target (in %) to reach and maintain a certain level of energy independence. Another way, would be to provide priority dispatch to electricity produced from indigenous fuels for a given share of overall demand (in %). At the same time, "*technology neutrality*" discussed above, should be understood in terms of all generation technologies, and not as it is often interpreted – just in the field of RES technologies. Therefore, all measures resulting in discrimination of fossil fuels, such as withholding CO₂ permits from the market, introduction of Emissions Performance Standards, CCS certificates etc. must be avoided.

- **How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market**

(e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?

As for the development of the interconnections it seems that the EU institutions have done their job (the recent EU infrastructure package). Now it is a matter of respective governments and TSOs to follow suit. In terms of diversifying energy supply routes there is still too much bilateral discussions between Member States and non-EU suppliers instead of the EU speaking with one voice on these issues.

Capacity and distributional aspects

- **How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?**

First of all, that the above-mentioned economic and social situations differ from country to country. Moreover, we cannot forget that there are the end-users (societies) who pay for any ideas undertaken on the political level that will affect the electricity prices (what in the context of the binding emission targets is unquestionable), thus defining any energy strategy should be done with due care. For this reason, creation of the fair effort sharing mechanism that will protect less developed countries and their societies is of utmost importance. There should be set an objective indicator (for example, GDP/capita) that would help to differentiate these countries while taking into consideration their characteristics.

- **What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?**

As discussed earlier, we should go back to national CO₂ targets reflecting the technical and economic potential for emissions reductions in a given Member State. This is one way of achieving a more balanced burden sharing in the EU. Additionally, fuel-specific benchmarks may be an option – allocation of free allowance up to the level of best available technologies in a given fuel, separately for lignite, hard coal, gas and oil.

- **Are new financing instruments or arrangements required to support the new 2030 framework?**

It **seems** that only finding an economically viable way to decrease the impact of coal-fired generation on climate can lead to the significant emission reductions. Therefore, more mechanisms should be created to support the development of the clean-coal technologies, mainly CCS (in particular CCU). The measures taken so far by the EU though notable, were not enough to push CCS forward. Thus, more involvement from the EU side is needed in order to encourage the national governments to financially support these technologies.

Yours faithfully,


TAURON Polska Energia S.A.
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