ASSOCIATION FOR DISTRICT HEATING
of the Czech Republic

ADHCR's response to the public consultation on Green paper "A 2030 framework for climate and energy policies"

June 28, 2013

1. Background

In March 2013, the European Commission published Green Paper "A 2030 framework for climate and energy policies" and thus started discussions about the future 2030 energy and climate policy. This document is very essential for district heating industry, because it will influence investment decisions in coming decades.

Main goals for effective future 2030 climate and energy framework to be considered are:

- energy security and stability of supply

- globally competitive energy prices

- environmental sustainability and technology development.

In past years, EU emphasized most of the time in its climate and energy policies only environmental aspects. Major worldwide developments namely financial and economic crisis is influencing European economy and needs to be addressed, if the EUs leading role should be maintained. High energy prices create great comparative disadvantage for EU especially in energy intensive industries. EU should also build on the experience gained during implementation of current climate and energy policies.

2. Key issues to be addressed

Examining all aspects of current EU climate and energy policies leads us to four main issues that need to be addressed in the new climate and energy framework.

Competitive energy prices

Energy prices play a vital role in costs of production in energy intensive industries. There is significant difference in energy prices of EU and global competitors. According to IEA data[1] this gap in electricity prices for industrial customers is growing each year. Similar development could be observed also in case of natural gas. Part of this difference could be attributed to taping domestic natural resources but there are additional costs driven by climate and energy policies such as price of carbon or support for renewable energy sources.

[1] International Energy Agency, Energy Prices and Taxes

Promotion of renewable sources is extensively influencing electricity prices in the EU. National support schemes for renewables have been implemented in order to fulfil European target of 20% renewables share in the energy production by 2020.

EU Emission trading scheme covering also power sector is increasing electricity prices. Electricity price setting reflects carbon costs in the wholesale price based on market circumstances. There is no major difference whether emission rights are allocated free of charge or need to be obtained on the market. Based on market experience in recent years, increase in carbon price leads to increase of electricity price.

Insufficient cooperation of EU policies

Current European legislative framework is based on objective to meet 20-20-20 targets. These targets were foundation for EU ETS directive, Renewables Directive and Energy Efficiency Directive. Obviously scopes of these measures are coinciding with and causing distortions in each other.

EU ETS is now facing significant oversupply of emission rights mainly due to economic crisis, which lowers demand for carbon rights and thus confirms correct functionality of the market itself. Allocation of emission rights should ensure certainty on final emission targets (caps) while leaving carbon price on the market and responses to economic cycles.

Unfortunately driving force for EU ETS – carbon price signal is disrupted by higher than predicted expansion of carbon-free renewables and realization of energy efficiency measures which lower the demand. Price of abatement solutions driven by national incentives scheme under framework of renewables' target is also questionable and influencing investors to focus on decisions outside marked-based EU ETS.

EU ETS also covers only heat installations with thermal input above 20 MW leaving significant part of the heat market outside the scheme. This leads to further distortion of competition on the heat market and discrimination against high efficiency cogeneration in large installations.

Break up of internal energy market

Member states are energy dependent on each other very strongly in political, technical and economical point of view but inter-connections of domestic energy concepts remains very low across EU. Although country's decision regarding choice of energy mix remain with each of the member states, decisions regarding support schemes, market organization and capacities influence also neighbouring countries and create barriers for integration of energy market.

Intermittent power generation poses high demands on electricity networks threatening security of supply and decreasing interconnection capacities available for cross-border trading. If current trends continue, some national markets can be effectively disconnected in the near future. This also applies to some national electricity markets where bottlenecks exist even inside those markets.

Slow progress in global climate action

Carbon markets across the globe are very different from each other and need to be significantly strengthened in order to set the basis for vital worldwide agreement in reduction of greenhouse gasses' emissions. United Nations Framework Convention on Climate Change is still not successful in

gathering national activities under umbrella of legally binding targets at international level. Ongoing second commitment period of Kyoto protocol covers only about 15% of global greenhouse gasses' emissions. The EU share decreases each year with estimations around 4-5% on global emissions up to 2030. Current situation with no global climate deal represents remarkable obstacle for European industry under EU ETS in terms of competition on worldwide markets.

3. Way forward - comments on 2030 framework for climate and energy

Based on historical experience from current climate and energy legislation, ADH CR appeals for more coordinated, economic-wise and competitive climate and energy policy framework to 2030. Major suggestions are:

Boost competitiveness and energy security

Cost-competitiveness, energy security and climate goals have to be treated equally in future climate and energy framework. Up to now climate goals and related policy instruments were intensively designed and implemented, leaving energy security and cost-competitiveness issues behind. In current situation climate targets dominate in energy policy without necessary feedback of raising problems with energy prices and security of supply. While climate policy needs to be streamlined, EU has to also develop other two pillars. For example, much more attention should be given to appropriate conditions for local electricity producers that could be able to cover basic electricity needs in case of a blackout. European countries should be able to develop domestic fossil fuel reserves improving energy security and competitiveness.

Agree on 2030 universal emission reduction target

It should be recognized that the three headline targets of the European climate policy, namely promotion of renewable sources of energy, energy efficiency and emission trading, compete to the large extent against each other. In future climate and energy framework there should be one universal emission reduction target instead of multiple targets in emission trading, renewables and energy efficiency. This EU wide target would foster transition of EU towards more efficient and sustainable economy. One target would also increase predictability of regulatory framework for industry in medium-long term perspective.

The goal should be met in cost-efficient manner. Adding technology or sector specific targets inevitably leads to inefficiency in spending resources. Allocation of capital in meeting emission reduction targets should to the largest possible extent be left to market forces and only clearly defined and proven market failures should be addressed with policy measures.

Emission targets on EU level have to be accompanied by comparable global emission targets based on legally binding climate agreement starting from 2020 particularly including developed countries. EU target for 2030 should be set at levels similar for global competitors taking into account outcomes from international negotiation process in 2015.

Extend the EU ETS to other sectors or replace it with carbon tax

In order to avoid competition distortions on heat market and tap all potential for cost-efficient savings of emissions, the EU ETS should be extended to all stationary combustion installations using fossil fuels regardless of installed capacity. This could be easily achieved by putting obligation to purchase allowances on fossil fuels on retailers or distributors that would serve as aggregators for smaller emitters. Existing competition distortions in the heating market would be eliminated and cost of emission reductions would be distributed more evenly and fairly among all final customers.

We also suggest that replacing of EU ETS by universal carbon tax applicable to all fossil fuels according to carbon content should be seriously considered. It would provide much more certainty regarding future evolvement of carbon price and thus much stronger and robust signal to investors. Last but not least carbon tax could also be used to impose duty on goods imported from countries not participating in carbon dioxide reduction effort ensuring level playing field and preventing carbon leakage also in international context.

In principle all EU ETS or carbon tax revenues should be redistributed to the sectors where they originated by means of cost-oriented support schemes. This would ensure that climate goals are met with minimum market distortion and also with minimum impact on industry and energy consumers fostering innovation and growth in EU internal market.

Reconsider support for renewables

Future EU energy mix should still be based on variety of energy sources – coal, gas, oil, nuclear and renewables. However share of renewables is expected to rise in coming decades. Facing this progress support schemes for renewables need to be strongly reconsidered in order to avoid further increase in energy prices. Current support schemes also undermine competiveness of European industry, distorts energy markets and burden economy as a whole.

In transition period technology based support should be gradually decreased and other aspects of renewables like priority grid access and covering of imbalance costs caused need to be also considered focusing on market-oriented support mechanisms rather than current highly inefficient technology related and cost-oriented support schemes.

After transition period, renewable support schemes should be focused mainly on early stages of given technology (R&D&I, demonstration projects etc.), market-ready technologies should be able to compete based on carbon price signal. This would also bring clarity and predictability to the biomass market which is now very much fragmented by individual actions of member states focusing mainly on electricity production.

On the other hand all positive externalities created by decentralized electricity production such as decreased power losses in the network should be fully recognized in the network tariffs so that level playing field is created between large and smaller installations in the electricity market and regulatory failures hindering energy efficiency and increasing cost for customers are addressed.

Foster research and development

Efficient European energy and climate-friendly technology programme is still missing. New framework should update related research, development and innovation programmes at European level with inclusion of all sectors. Innovation efforts should target on demonstration projects.

Financing should come both from private and public bodies and could be partially covered by revenues from EU ETS auctions. Other financing sources could be found in public-private instruments and could come from institutional investors.

Stronger energy policy coordination

Coordination of national energy policies needs to be further strengthened, taking into place mandatory consultation process on EU level in case of national decision with negative cross-border consequences for neighbouring countries. This should foster coordination of national frameworks and ensure proper function of European energy market as a whole.

Development of electricity and gas grids interconnection according to Third Energy Package is essential for EU competitiveness. Public acceptance and regulatory risks need to be assessed in order to speed up necessary investments. In this respect stable EU policy is vital for attraction of investors. Networks should be planned jointly taken into account international European perspective.

EU should emphasize its international energy diplomacy, developing the trade strategy and create policy instruments to foster relations with major energy suppliers. Foreign economic policies should treat energy as one of the main pillars. Diversification of energy suppliers and supply routes needs to be also considered particularly in the long-term perspective.

4. About ADHCR

The Association for District Heating of the Czech Republic (ADHCR) is an association of entrepreneurs in the field of heat supply. The Association was founded in 1991 with the purpose to promote development of district heating and high efficiency cogeneration in the Czech Republic. The members supply heat to 1,150,000 households – almost 3 million residents, SMEs, industry and public sectors.

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