A Balanced Framework for the Clean Energy Transition

A Statement by EURELECTRIC

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The European decision makers are entering a crucial stage of negotiation of the Clean Energy Package. EURELECTRIC sees an opportunity for a balanced and ambitious approach across legislative proposals, which can accelerate the clean energy transition, ensure cost-efficiency and ensure security of supply at the same time. Four elements are needed to create a balanced framework:

1. An ambitious overall framework to further reduce GHG emissions with a strengthened ETS at its core;
2. Energy efficiency and increased electrification in key sectors: industry, transport & buildings;
3. Stronger signals for new carbon-neutral investments;
4. An effective approach to system adequacy that recognises the diversity of EU Member States.

1. An ambitious overall framework to further reduce GHG emissions with a strengthened ETS at its core

To deliver on the Paris Agreement a meaningful carbon price signal is indispensable. The cornerstone of EU climate policy, the EU ETS, is a market-based quantity mechanism that sets an absolute cap on emissions. There is no better instrument to ensure that emissions are reduced in a cost effective way.

EURELECTRIC welcomes the provisional agreement on EU ETS reform that will strengthen the European carbon market and strongly urges EU institutions to proceed with its confirmation as soon as possible. We reinforce our call to Europe to take the necessary actions and bring its decarbonisation ambition and action plan in line with the Paris Agreement objectives. This is the only way to place the European economy on a cost-effective pathway to decarbonisation.

Moreover, consistency with other overlapping policies and measures in the ETS sectors such as new renewable and energy efficiency legislation will be crucial going forward. This should be ensured through implementation of a mechanism that addresses the structurally oversupplied market of EU ETS allowances.

Specifically, this means:

- Increasing the EU ETS Linear Reduction Factor to at least 2.4% at the earliest possible opportunity and ensuring a predictable and rule-based cancellation of surplus allowances from MSR.
- A more dynamic adjustment measure to be implemented in the context of the Energy Union Governance Regulation. Such a measure would ensure that any future surplus from policy overlaps will be addressed.
- A strengthened ETS needs to be complemented with a proportional increase of the Modernisation Fund of between 2% and 4% for Member States with a GDP per capita below 60% EU average.

2. Energy efficiency and increased electrification in key sectors: industry, transport & buildings

Electricity is the cleanest energy carrier in the EU today. It is well on track to becoming carbon neutral. But whereas the power sector is steadily reducing its carbon footprint, emissions are on the rise in other sectors. Increased energy efficiency and use of electricity in transport, industry and heating & cooling, happening in parallel to the decarbonisation of the power sector, will be key for the overall emission reduction efforts and will indirectly apply the ETS to these other sectors.

To drive emission reductions in the non-ETS sectors, in line with the Paris agreement, the ambition level for these sectors should therefore be increased and barriers to electrification removed. When setting national strategies and measures, Member States should take strongly into account the major contribution of electrification to achieve Effort Sharing Regulation (ESR) targets in 2030 and beyond.

For the transport sector strong levers for decarbonisation are at hand. The Mobility Package represents a key opportunity to speed up its electrification which must not be missed. In the Energy Performance of Buildings Directive (EPBD) requirements for electric vehicle charging points and pre-cabling are needed.

A more systematic approach to ensuring increased electricity uptake in the non-ETS sectors is needed; including a recognition of the crucial role of Distribution System Operators (DSO) in facilitating this. Provisions to monitor and accelerate efficient electrification should be strengthened.

Specifically, this means:

- A lower, forward looking Primary Energy Factor for electricity which better reflects the changing EU electricity mix.
- Strict CO2 emission standards for cars and vans as well as separate targets for the take-up of zero emission vehicles in the Clean Mobility Package.
- Strengthened requirements for charging infrastructure deployment in buildings in the Energy Performance of Buildings Directive
- The promotion of efficient electric technologies along with sharpened monitoring of progress and provisions to accelerate efficient electrification through the Governance Regulation, in particular through the Long-term low carbon strategies.
- Increased targets for suppliers to use renewable energy in transport in the Renewable Energy Directive and the application of a suitable multiplier to acknowledge the higher efficiency of electric vehicles as compared to conventional engines.
- Accelerating the shift towards competitively priced electricity for European consumers.

3. Stronger signals for new carbon neutral investments

Going forward, all investments should be directed to carbon neutral generation and transition-enabling technologies such as storage and demand response. Stronger signals are needed for these investments. A market design that values energy, flexibility and assets' contribution to system adequacy will provide, together with a strengthened ETS, the signals for a cost-effective decarbonisation.

An accelerated deployment of renewables is possible as the planned electrification of transport and other sectors will require more carbon neutral electricity. Costs of renewables have significantly decreased in recent years. Achieving a more ambitious economy-wide share of renewables at European level by 2030 is therefore within reach.

EURELECTRIC supports a higher share of renewables towards 2030, if the right framework is in place.

Specifically, this means:

- The functioning of electricity markets is improved ensuring a level playing field and including equal market responsibility for all technologies.
- Electrification is actively fostered and deployed in other economic sectors as technology is evidently making this possible.
- Renewables are delivered with market-based mechanisms that are technology open and allow long term contractual arrangements.
- Overlaps with the EU ETS are addressed.
- Permitting procedures and public acceptance challenges are actively addressed.

4. An effective approach to system adequacy that recognises the diversity of EU Member States

A precondition for system adequacy is a well-functioning market where electricity flows freely across borders, where existing infrastructure is used in the best possible way and where the market provides the right investment signals. Prices that actually reflect the electricity system situation, including scarcity prices, must be accepted in the regulatory framework.

Through the increased penetration of low/zero-marginal cost generation, downward pressure is being placed on wholesale power prices as well as on running hours for back-up and thermal plants. Where needed to ensure system adequacy for consumers, the contribution of capacity to security of supply (provided by generation, RES, storage, demand response) must therefore be recognized, and valued as an integral element of the overall market design. A consistent framework with harmonised adequacy assessments is needed for transparent, competitive, cost-effective and open capacity markets that optimise the use of available capacity and attract sources of carbon neutral firm capacity (including RES, storage, demand response) at regional level.

When addressing security of supply, due attention must be paid to the diversity of energy systems in Member States. Unnecessary costs and system constraints must be avoided and market-based solutions should prevail. Specific situations in individual Member States must be carefully considered - grid constraints, energy system characteristics and macro-economic as well as energy dependency impacts. Realistic timelines should be granted to develop alternative options in a cost-effective way.

In this context, EURELECTRIC reiterates that an EPS coupled with capacity mechanisms is distortive and does not support cost effective decarbonisation, increases costs for consumers and creates risks of security of supply and gas import dependency.

Specifically, this means:

- Removing price caps and market distortions to allow for prices to reflect scarcity and investment needs.
- Ensure a consistent framework for transparent, competitive and open capacity markets in the Electricity Regulation also open to storage, RES, demand response; avoid stop-and-go approaches.
- Endorse the introduction of an EPS requirement of maximum 550gr/kWh for new plants in capacity mechanisms with a final investment decision after 2020 as the European power industry does not intend to invest in new build coal fired plants beyond this date.
- Reject an EPS for existing plants in capacity mechanisms as this will distort the market. Member States should have the flexibility to address national and regional system adequacy specificities and ensure a cost-effective energy transition for consumers.