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REPORT

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COMPLETING THE INTERNAL ENERGY MARKET: BUILDING AN INTEGRATED EUROPEAN ENERGY NETWORK

Vilnius Conference

The Conference (4th-5th November, 2013) brought together key figures, active in the EU's energy sector, such as: Gunther Oettinger, European Commissioner for Energy; Jaroslav Neverovic, Minister of Energy of the Republic of Lithuania; Prof. Jerzy Buzek, MEP; Paweł Olechnowicz, Chairman of the Board of Directors, CEEP; Fatih Birol, Chief Economist at the International Energy Agency and others. The Conference also attracted Ministers from several countries, including: Bulgaria, Cyprus, Denmark, Estonia, Kosovo, Latvia, and Moldova.

Below, we present the full text of Minister Neverovic address to the conference.

We have interesting times in energy sector:

- We have a shale gas revolution in US which is having an impact on the rest of the world including Europe,
- Market models are changing, for gas especially – there is talk about creation of World



Jaroslav Neverovič, Minister for Energy of Lithuania

Gas markets, more and more contracts are relating to spot markets that to oil indexation,

- REN have had big impact – on one hand it has got much closer to becoming competitive

under market conditions, on the other hand balancing and storage is still a challenge,

- Many countries struggle for securing safe base generation.

Certainly European Union's progress towards Internal Energy Market is one of such profound processes. And this is surely the right direction – we need competitive energy prices for our consumers

and our businesses. We need to ensure that European energy infrastructure would match consumer demands for today and for the future.

Vilnius Conference

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Internal Energy Market and Infrastructure

The European Union needs internal energy market that is fully functioning, competitive and integrated, providing a solid backbone for electricity and gas flows where it is needed. Adequate energy infrastructure is a precondition necessary to achieve this goal.

Major steps in setting the regulatory regime were made recently: Third Energy Package, Security of Gas Supply Regulation, TEN-E Regulation, Network codes, Regulation on Connecting Europe Facility. Effective cooperation mechanisms at regional and EU-wide levels occurred. However, despite these developments the Member States are still lacking the adequate interconnectivity.

Latest few months' examples in Baltic electricity market, when sudden disruptions in the energy supply and generation made the electricity prices to go up, gave us again an understanding that energy market cannot work and provide the expected results without the sufficient interconnectivity.

Furthermore, without a properly developed European energy infrastructure there is little rationale for trade under the same rules. Finally, a well-developed energy infrastructure

is necessary to give equal benefits to the consumers and businesses.

The recently selected and approved Projects of Common Interest, if implemented, will significantly contribute to removing barriers to the EU internal market. Implementation of the PCIs will start a new era of EU-wide energy infrastructure development. It will integrate Member States' networks and will end its energy isolation. Moreover, it will facilitate integration of renewable energy sources across the Union, open new gas corridors, and will offer alternatives to the Member States which are still dependent on a single source of electricity, oil or gas supply.

Completion of 248 projects covering twelve regional areas will enhance the preparedness of the system to take up network flows, effectively respond to the demand side requirements, as well as help to maintain system stability.

Projects, such as Southern Gas Corridor, will connect Caspian region with Europe, enhance diversification of gas suppliers and ensure uninterrupted supply. The North Seas Offshore Grid will create an integrated offshore energy grid which will link the wind farms and other renewable energy sources across the northern



'Vilnius Conference', 4th-5th November 2013, (from left to right): Dave Keating, European Voice; Gunther Oettinger, European Commissioner for Energy; Jaroslav Neverovič, Minister for Energy of Lithuania; Prof Jerzy Buzek, MEP; Fatih Birol, Chief Economist at the IEA.

seas of Europe. Electricity interconnections between Spain and France will increase the security of the system and help to integrate renewable energy. I am particularly excited that BEMIP (Baltic Energy Market Interconnection Plan) found its place in the list of PCIs. All BEMIP projects aim at diversification of suppli-

ers and eliminating the energy isolation in our region.

Thus, developed European energy infrastructure will bring us closer towards completed internal energy market – fully functioning, integrated and competitive.

Vilnius Conference

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Welcoming PCI

The completion of the PCI list was a notable process in itself. It was a comprehensive and continuous work of all the stakeholders involved – European Commission, national regulators, ACER and the Member States. One of the key features of the PCIs and one of its strengths is that the projects were agreed at least among two Member States. It shows that the completed list of Projects of Common Interest is as a result of solidarity among the EU Member States.

The list of PCIs is a unique opportunity from the one hand to implement already mature projects, from the other hand – to rise the maturity of currently concept projects. For some projects PCI process will be catalyst to start territorial and EIA processes, for other it will be an occasion for stakeholders to address modalities of concept projects.

One of such projects to be matured is Baltic States synchronous interconnection with the Continental European networks. This project is of the strategic importance for the fully-fledged Baltic States integration into EU system. However, a lot of work should be done together with our neighbours. Respectively we see a lot of major developments in this project:



Vilnius Conference, 4th-5th November 2013, (from left to right): Paweł Olechnowicz, Chairman of the Board of Directors CEEP, Janusz Luks, CEO CEEP.

at the end of September the Feasibility study of the synchronous interconnection variants has been completed. Currently we are at the edge of discussing the further steps among ministries of Baltic States.

Moreover, this project is discussed with our neighbor Poland. It is of the key importance for

the success of this project. I am glad to mention that a week ago we have agreed with Polish minister of economy that TSO's will perform together the pre-feasibility study on necessary infrastructure. This would open the new stage of our cooperation and will bring us closer to practical steps in implementing this project.

DEAR GUESTS,

Almost 5 years ago the Baltic Energy Market Interconnection Plan (BEMIP) was initiated with its official launch in June 2009 and a kick-off meeting of BEMIP a few months later here in Vilnius.

Today, after four years, we agreed on a list of PCI projects and are having a kick-off meeting of PCIs here in Lithuania again, as Lithuania is a consistent and active developer and player of the EU energy infrastructure policy!

I see many parallels and what is extremely important – the new quality and quantity of the EU energy policy developments. BEMIP was a clear step to regionalize energy infrastructure development, and PCIs are the extension of that insofar as they promote Europeanization of energy infrastructure.

BEMIP is one of the pilot projects of EU energy infrastructure development and is treated as a success story of infrastructure and market integration. In principle it started also as a list of projects and now we can draw some conclusions already.

First conclusion is on financing.

In 2009 the European Energy Programme

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for Recovery (EEPR) was launched to co-finance projects designed to make energy supplies more reliable and to help reduce greenhouse emissions.

Our region experienced Programme for Recovery advantages as it helped to kick-off NordBalt, electricity interconnection project between Lithuania and Sweden and expansion of Latvian grid. It is an evident proof of how important EU financing is for developing energy infrastructure in the EU, as often it has been difficult for commercial entities, as well as for national governments or consumers, to cover all the costs. Having received financial support from EU funds allowed the project to become viable and in the two upcoming years it will be implemented. This will facilitate trading between Baltic and Nordic electricity markets and increase security of supply in the region.

Based on this experience Lithuania welcomes the Connecting Europe Facility and calls for swift finalization of all procedures in the European Parliament.

Second conclusion from BEMIP is on permitting.

As we know, the label of PCI will not only

open EU financial possibilities, but also would pave the way for more effective permit granting procedures. Here we have new option available – nationally appointed “one stop shop”, which would be responsible for coordination process. This institution would let to concentrate all the efforts and pushing powers in one hand. Moreover, this would make the completion of permit granting procedures in 3 and a half years possible.

And this is really a challenging task under current requirements – I know that as I was previously working at Project Development Company for Lithuanian – Polish high voltage interconnector. We started at the beginning of 2009 with Feasibility Study and later territorial planning, EIA procedures, transboundary EIA, finally tendering of Back-to-Back converter which will be a unique technical solution which will influence two systems. Physical works will start next spring which makes it 4 years of very intensive works with having ensured coordination of process between the TSO’s and institutions of both countries. No doubt streamlining of this process would be very helpful. 

GRUPA AZOTY JOINS CEEP

We have great pleasure in informing that CEEP has just accepted Grupa Azoty S.A. as the 21st member of our Association.

Grupa Azoty S.A was formed after consolidation of Polish chemical companies, which resulted in the merging of the four largest chemical plants: Tarnow – home to its headquarters, Police, Puławy, and Kędzierzyn-Koźle. Together with the smaller subsidiaries, they have created today an important chemical group in Central Europe.

Grupa Azoty S.A. produces many significant chemical products such as OXO alcohols, caprolactam, modified technical plastics, melamine, etc. The Group is the second largest producer of fertilisers in Europe, and also deals with chemicals (such as cyclohexanone and nitrates) and catalysts, and provides state-of-the-art laboratory services. The Company’s business consists of the manufacturing, trading and provision of services in engineering plastics, plastic production feedstock, and mineral fertilisers.

Products manufactured by Grupa Azoty S.A are practically delivered to all continents, selling in more than 50 countries. The Group has its own logistics facilities and a research, development, and service base. At the end of June 2013, em-

ployment in the whole group reached more than 13.2 thousand people.

Janusz Luks, CEO of Central Europe Energy Partners, welcomed Grupa Azoty’s membership of CEEP, declaring that: “I am very glad that we are combining our skills to pronounce our position at the EU and international level. Together, we will be stronger”.



It is worth noting that Grupa Azoty S.A is a large consumer of energy, and in particular, gas, as a raw material, as well as for heating purposes. The price of energy is an important element which impacts the company’s product competitiveness, especially its exports. Issues concerning emissions of CO₂ and NO_x are also very important, and will be increasingly important.

The company intends to actively engage at the EU, with all of these issues, by using the opportunities developed by CEEP.

Grupa Azoty S.A. has been listed on the Warsaw Stock Exchange since June the 30th, 2008, and on the February 19th, 2013, it became a part of the MSCI Emerging Markets index. Additionally, Grupa Azoty S.A. is a constituent of several Warsaw Stock Exchange indices, such as WIG-CHEMIA, WIG30, WIG, WIG-PL, and the Respect Index.

For more information, go to: <http://grupazoty.com/en/main>

FOR CEEP REPORT MR. MATTHIAS GROOTE (SOCIAL DEMOCRATIC PARTY), MEP, TALKS TO MAREK ORZECZOWSKI

We must integrate climate strategy with energy efficiency

Marek Orzechowski (MO): *The long-awaited climate conference in Warsaw: What do you expect from the meeting in the capital of Poland?*

Matthias Groote (MG): Realistically speaking, I think what we can - and should - expect from Warsaw, is an indispensable and significant step towards the 2015 UN climate conference in Paris. I believe that Warsaw should indeed be a milestone towards an internationally-binding agreement.

MO: *EU Commissioner for Climate Change, Connie Hedegaard, said in Brussels, that she expects “real action and commitment”. That means shorter debates and more environmentally-friendly steps. So, do we really need such a conference to protect our climate?*

MG: We need these conferences to bring people to a single negotiating table. Moreover, we need to show to the world that climate change continues to be a big deal and that we are committed to the fight against it: not just in Europe, but on a global scale.



Matthias Groote

MO: *Just before the conference in Warsaw, Russia warned, in a letter, against “increasing the number of serious legal and procedural flaws”. What did Russia actually mean by issuing such a warning?*

MG: In my opinion, Russia wanted to highlight the need for united action. From my understanding, there have been constructive efforts to make sure that no member of the United Nations is left out of this process.

MO: *Poland has been labelled the ‘dirty boy of Europe’, due to its substantial dependence on coal, so how would you assess the position of Poland in relation to the subject of this conference?*

MG: It is important to acknowledge the fact that we face a great deal of heterogeneity within Europe. Climate change is a united European commitment. The fact that Poland is hosting this conference acknowledges both - our heterogeneity, as well as our commitment.

MO: *You are Chairman of the Environment Committee in the European Parliament. It seems*

that this committee has now become the most important of all: is my impression a correct one?

MG: The Environment Committee is one of the biggest committees in the European Parliament. When we talk about climate change and environmental issues, it is of course, a key player, - and it should be!

MO: *Was the final vote on ‘backloading’ a success or a failure in your view?*

MG: Personally, I believe it was a great success, since it was closer to my original report. However, a compromise would have been a feasible option.

MO: *Climate policy clearly dominates within the policy-making processes of the European Commission. Is it true that energy and industrial policies have now become the enemy of the all-powerful climate thinking?*

MG: On the contrary! As I have repeatedly emphasised in the past, energy and industrial policies must go hand-in-hand with climate policy. In order to meet our climate goals, we must in-

We must integrate climate strategy with energy efficiency

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tegrate an ambitious climate strategy with energy efficiency, and further incentives for clean industries. This is why we need three integrated targets for 2030 - not just a single one.

MO: A vision of Europe as a 'green island' also means shifting the costs and problems of industry onto non-European countries. However, the people of Europe still need cars, clothes, and other manufactured products - as well as jobs and money, of course...so, surely this 'green trend' is extremely damaging to the economic welfare of EU countries and their peoples?

MG: Certainly not. Investment in a low-carbon economy means creating new jobs and sustainable paths for innovation and growth. I believe that this is the way forward - in Europe, as well as on a global scale.

MO: In your view, should each EU Member State pursue the same goals of climate policy, or not?

MG: We should stick to common climate targets and a firm commitment to reaching these targets, whilst acknowledging that Member States are heterogeneous.

MO: Next year, we have European elections. In almost all EU countries, we are confronted with growing scepticism about the EU and its practices. Therefore, is the climate policy either an appropriate way to encourage European integration, or is it a divisive force?

MG: Since climate change is a global phenomenon, it necessarily unites us all in our fight against it. The EU has been taking a leading role in this struggle, and will continue to do so in the future. I believe that this combined struggle should be seen as an integrating force. 

Matthias Groote

was born on the 21st of October, 1973, in Leer, Germany. He has a professional background in Industrial and Sales Engineering, and received a diploma in Engineering and Management at the University of Applied Sciences in Wilhelmshaven. Matthias Groote has been a Member of the European Parliament since 2005. He became Chair of the Committee on the Environment, Public Health and Food Safety in January, 2012.

UPCOMING EVENTS



THE NATO POST 2014 CONFERENCE IN: BRUSSELS

Many energy experts perceive energy security as being a primary issue at the forefront of transatlantic relations in the coming years. Recently, NATO's Center of Excellence on Energy Security was inaugurated in Vilnius (Lithuania), confirming the relevance of energy in today's international debate. The NATO Post-2014 Conference there, will host more than 250 ATA experts and delegates from across 36 countries of the Euro-Atlantic region, along with Brussels-based policy-makers, government officials, military officers, diplomatic representatives, journalists, and young professionals. This conference will be a unique opportunity to merge CEEP energy experts with ATA and Brussels-based NATO experts, to further develop its relations in the energy sector across Europe and North America. It marks an enriching and exclusive opportunity for both practitioners and government representatives to define the future of NATO after 2014.

The Conference will be attended by several high-profile guests, including: Hon. Dr. Karl A. LAMERS - President of the Atlantic Treaty Association; H. E. Mr. Pieter DE CREM - Minister of Defence of Belgium; Hon. Mr. Hugh BAILEY - President of the NATO Parliamentary Assembly and Mr. Jan HAVRANEK - Political Director, Ministry of Defense, Czech Republic.

If you have any queries regarding the Conference, please contact us at: info@ata-sec.org

The EU's climate and energy policy: a new approach urgently needed



Bolesław Jankowski

By Bolesław Jankowski

LETTERS TO THE EC

Thirteen ministers from EU Member States are encouraging the EC to continue the so called 'ambitious' climate policy, with stricter emission reduction goals and increasing carbon prices. They argue that such a policy will create economic benefits and more jobs. Similar letter of the representatives of 53 companies was sent on 24th of October, 2013. The letter contains the statement: "A clear carbon price signal and long-term visibility are essential to drive investments and growth". The statement is astonishing when you consider that European countries have been developing for dozens of years, without any clear price signals with regard to CO₂.

However, it seems that the views presented by the 13 ministers and 53 companies constitute mainly an expression of their own interests. They have little to do with the interests of the whole EU, or for the economic and social development of its Member States.

So, let us focus on the facts.

Forecast and actual facts of the Union's climate and energy policy

To present the logic behind the EU's climate and energy policy, I shall use an approach, which describes a public strategy by means of a system of goals formulated with four perspectives:

1. Societal perspective – covers expected benefits from realisation of the strategy for the whole society.
2. Perspective of the market players – contains the goals, describing changes which should take place, as a result of the decisions made by market players (e.g. in the structure of production technologies, consumption of fuels, emissions of pollution, etc.).

3. Perspective of market transformation – covers instruments and mechanisms which should be implemented in order to stimulate the required behaviour of the market players,

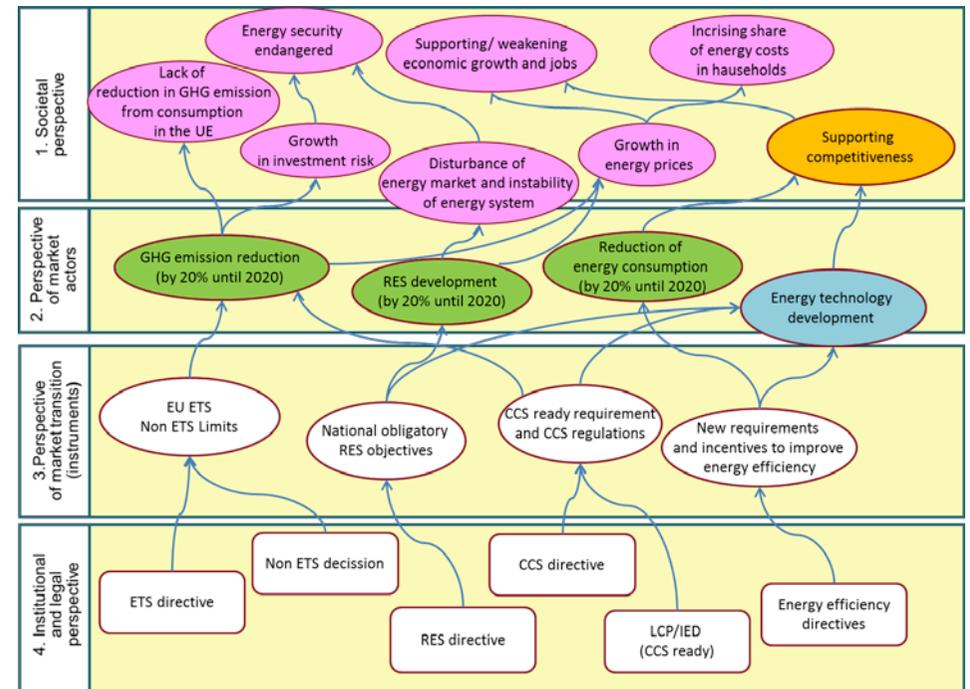


Fig. 1: Map of the EU's energy and climate policy goals – real effects in the societal perspective

The EU's climate and energy policy: a new approach urgently needed

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4. Institutional-legal perspective – defines legal regulations and public institutions which are necessary to run the intended market transformation.

This approach is based on adaptation of the Norton – Kaplan method and was presented in the study (Jankowski B. and others, 1999) . A good strategy should link goals from all the perspectives in a coherent manner, in such a way that the realisation of the lower level goals would contribute to the realisation of the higher level goals. (2. There is actors. Should be players)

The present EU energy policy puts the emphasis on the three measurable goals, and in figure 1, they are presented in the perspective of the market players in green. In order to ensure their realisation, proper implementation mechanisms and legal regulations were implemented as marked on the two lower levels (3 and 4) of the map of goals.

While designing the energy strategy for Europe, it was expected that the realisation of the measurable goals would result in achieving positive effects (political goals) such as: climate protection, energy security improvement, support for economic growth and jobs, and affordable energy for consumers. Realisation of the EU's policy, brings the results closer to the expectations, in only the three lower levels (2, 3, 4). Unfortunately, the actual effects obtained in the societal perspective, shown in level one of fig. 1, are completely different from the expectations:

- CO2 reduction and RES development are leading to increases in energy prices.
- A small drop in CO2 emissions from the EU is compensated

with an increased imports of energy intensive products, and as a result, emissions caused by consumption in the EU do not fall.

- Ambitious EU reduction goals did not convince other countries to follow suit, and growing energy prices have had a negative impact on competitiveness, even discouraging non-EU countries from undertaking a similar climate policy.
- Unclear future evolution of the EU's policy and the uncertainty of future carbon prices prompt an increase of investment risk and ultimately, the withholding of investments in new conventional powers.
- Growing energy prices have a negative impact on the competitiveness of the EU's industry sector and apply growing pressure on household budgets.
- Subsidising the development of RES results in disorders of energy market mechanisms and the unstable operation of the power systems (e.g. loop electricity flows from Germany to Poland, the Czech Republic, and Austria).
- Market mechanisms disturbed by the subsidising of RES, leads to a withholding of the construction of new conventional power plants, which generates a growing threat to the security of supplies in the future.

Clearly, there is an improper definition of the main goals of energy policy – with a concentration on lower level goals whilst neglecting the realisation and measurement of the main goals in the societal perspective.

NEGATIVE INFLUENCE ON ECONOMIC DEVELOPMENT AND JOBS

Climate policy causes a drop in GDP across the entire EU. Table 1 presents the results of the latest macroeconomic analyses published by the EC in 2011, and they show that negative consequences grow in the course of time.

GDP			
Tax non ETS	Industry in ETS price-setting strategy: Include opportunity costs (free allocation)	Vs reference in 2020	Vs reference in 2030
Yes	Yes	-0.18%	-0.89%
	No	-0.09%	-0.74%
No	Yes	-0.97%	-1.95%
	No	-0.93%	-1.86%

Table 1: Influence of decarbonisation policy on GDP up to 2030, according to EC documents. Source: SEC (2011) 288 final, p. 44

Macroeconomic analyses, presented in EC documents, reveal that the EU's climate policy also causes a drop in employment. An increase of employment observed, only when using revenues from CO2 allowances and carbon tax to reduce labour tax. However, in the Commission's proposal, there is no such solution.

The EU's climate and energy policy: a new approach urgently needed

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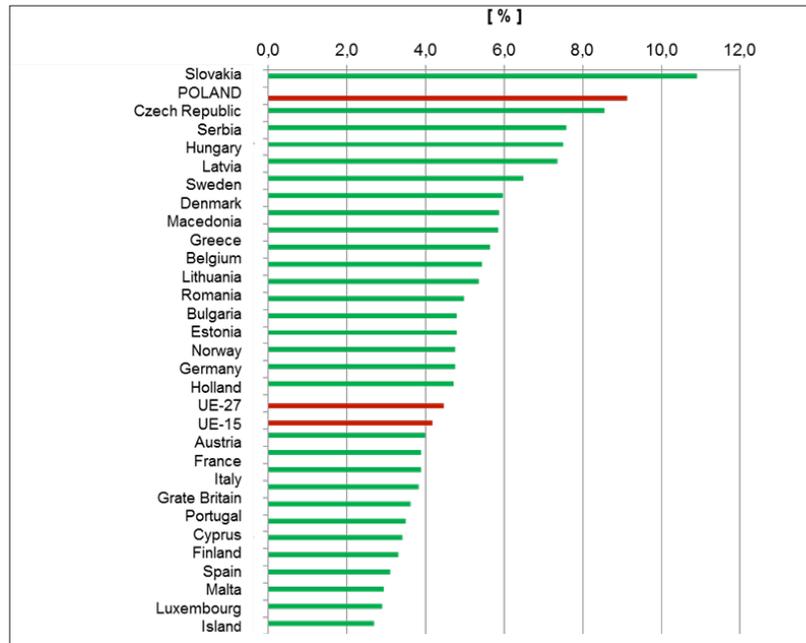


Fig. 2: Share of energy costs in household budgets in EU countries (Source: Eurostat).

UNEQUAL EFFECTS FOR PARTICULAR COUNTRIES

One can easily identify the group of countries which will be most exposed to a threat of negative effects, due to the EU's climate policy. They include mainly the new EU countries, who possess the lowest level of economic development and significant participation of industry in GDP. For example, in Poland, for example, the direct costs of climate policy will be about twice the average level in the EU; and indirect costs – a drop of GDP

Republic and Hungary, the costs of energy are already high (above 7%) or very high (above 9%). Implementation

- even four times higher than the average for the whole EU.

COSTS OF ENERGY FOR HOUSEHOLDS

The EU's climate policy, assuming obligatory auctioning in the EU's ETS, growing prices of CO₂, fast development of RES, and introduction of the coal tax in the NonETS sector, leads to an increase in energy costs for households in the EU by about 40% (see e.g. SEC(2011) 288 final, Figure 35). However, the effects of the increase will be far more harmful for countries, which already have a high share of energy costs in household budgets (see Fig 2).

In such countries as Slovakia, Poland, the Czech

in these countries, of any policy leading to a strong increase in energy prices, will push a large part of society beyond the threshold of energy poverty, which is defined at the level of a 10% share of energy costs. For countries with a lower share of the costs of energy, the social effects will be significantly lower.

COSTS OF ELECTRICITY FOR INDUSTRY

A tariff and tax policy that tries to protect the impoverished energy consumers, is a likely outcome in the low income countries. In richer EU countries, consumers are able to pay higher prices for energy. Therefore, tariff and tax policy in higher income countries often tends to ensure low prices of electricity for industry, in order to improve and protect their competitiveness. A good example is Germany, where industrial consumers are to a great extent, released from bearing the costs of RES de-

Groups of EU countries	GDP per capita 2011	Share of industry in GDP 2011	Electricity prices in 2012		Electricity prices: dynamics - 2008-2012		Relation of electricity prices for industry to electricity prices for households in 2012
			for industry	for households	for industry	for households	
			EUR/MWh	EUR/MWh	2008=1.00	2008=1.00	
Old Member States (EU-15)	27,731	17.6	99.3	204.5	1.11	1.16	49%
New Member States (EU-12)	9,425	23.5	108.8	156.0	1.24	1.28	70%

Table 2: Relation of electricity prices for industry and households in the groups of countries with lower and higher incomes.

The EU's climate and energy policy: a new approach urgently needed

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velopment, which does not take place in Poland. As a result, electricity prices for industrial consumers in lower income EU countries are higher than in richer countries (see table 2), and this factor has a negative impact on their competitiveness.

In the majority of new EU countries, the share of industry in GDP is significantly higher than in the EU on average. Romania, the Czech Republic, Slovakia, Hungary, Slovenia, Lithuania, Poland and Bulgaria belong to a group of countries with a 25%-plus share of industry in GDP, significantly higher than the average EU level (about 16%). A high share of energy costs in the households of these lower income countries, does not allow the introduction of instruments, which would protect industrial producers against an increase of energy prices. Furthermore, the introduction of more ambitious climate goals will result in a loss of competitiveness and due to the important role of industry in those countries, the social effects could be dramatic.

UNEQUAL ALLOCATION OF CLIMATE POLICY COSTS BETWEEN PARTICULAR COUNTRIES

Application in all EU countries of unified mechanisms aimed at obtaining a high efficiency of emissions reductions, leads to a very unequal and unjustifiable allocation of costs. Figure 3 presents the allocation of costs in the case of the optimal reduction of GHG emissions by 20% in 2020, according to the EC's calculations.

In Figure 3, the countries are arranged, according to growing GDP per capita. Apart from a large differentiation of costs expressed in relation to GDP, a significant feature of the allocation

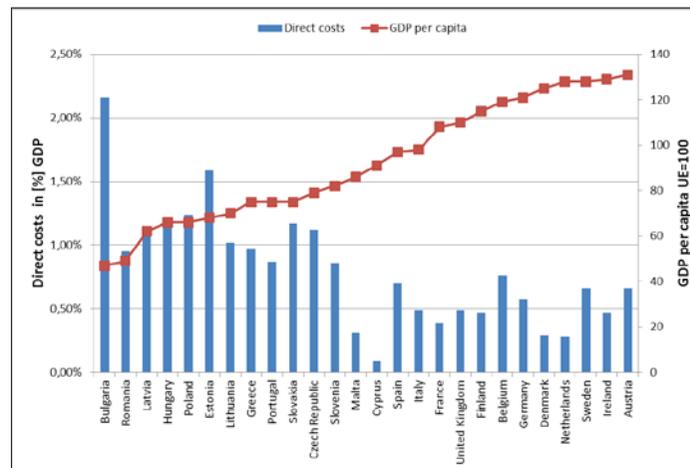


Fig. 3: Allocation of reduction costs between the Member States in the case of the optimal GHG emissions reduction by 20% by 2020 – according to the Impact Assessment to the Climate Package (SEC (2008) 85, Table II p. 22, Option 1) and GDP per capita index.

is that the higher costs in the lower income group of countries are double those of the richer countries! During preparation of the climate package, the compensation mechanisms were designed to create a more justifiable cost allocation. These mechanisms, however, turned out to be completely ineffective. Furthermore, they are not going to be revised, despite the completely different allocation of costs in relation to intentions. Actual direct costs incurred by Poland, for example, are several times higher than presented in EC documents.

SUMMARY

The EU's climate and energy policy has failed. Instead of the expected benefits, it brings about lower levels of GDP, reduced employment, increased energy prices, a weakening of EU industry's competitiveness, the withholding of the construction of new conventional power plants, problems with the stability of energy systems, and a threat to the long-term security of energy supplies. This policy also leads to the unjustifiable allocation of costs, imposing especially high social and economic burdens for new, lower income EU Member States. In this context, the voices of ministers from 13 countries and from 53 companies should be treated only as an expression of their ties to the interests of their own country or company. Acceptance of such selfish attitudes as a basis for the creation of new EU climate and energy policies is a good recipe for maintaining economic and social problems, prompting an increase in disproportions and tensions, and producing, most probably, the fragmentation of the EU. Development of the whole EU requires policies, which give all countries and companies opportunities to develop, not just the selected groups, and encourages the use of all available resources, competences, and industrial potential. 🌱

Dr Bolesław Jankowski

Vice-President at Systems Research EnergSys Ltd., graduated from Warsaw University of Technology, and received his Ph.D. at the Technical University of Silesia. A leader in a number of international projects in the field of system analysis, modeling and strategy development, he is also a specialist in ETS.

Investment in generation capacity needed



Władysław Mielczarski

By Władysław Mielczarski

POWER BALANCE IN EUROPE

The power reserve in the European electricity system gradually diminishes, leading to a threat of a lack of generation adequacy. Due to the ENTSO-E, in the winter reference point, the reliable available generation capacity in Poland counts for 26,15GW, while the load peak is estimated at 24,5GW, with an import capacity of 0,82GW. The current power reserve equals 6%, and it is diminishing every year. The power

balance to 2020 is artificially maintained by keeping the TSO's old, worn out installations on the grid in a form of reserve, for use in peak demand periods. Similar problems in power balancing are common in many European countries.

Despite the vast development of renewable energy resources, their contribution to the energy balance still counts for only 13% across the European Union. The security of electricity supply and the power balance can only be guaranteed by large, entirely dispatchable plants. However, market electricity prices are below the cost of new entries, discouraging power companies from investing in power generating assets. There is a need for new systems, allowing for returns from highly dispatchable existing generators and new power assets.

ENERGY ONLY MARKET

The liberalisation of the power supply industry in the 90's was carried out in the presence of large power reserves. They had been constructed during the monopoly era characterised by the excess of investments. Such excess allowed for the introduction of electricity markets only based on energy trade. The competition in electricity trade and decreasing capital costs led to low electricity prices, which was

welcomed by the politicians as a visible proof of the market's operation.

However, the electrical energy cannot be stored, at least not in bulk, so power reserves are required to ensure the security of supply, in particular, during the peak demand periods. Maintaining the power reserves and keeping them available, result in additional costs which are not covered by the 'energy only market'. The apparent success of liberalisation, measured by decreasing electricity prices, has been achieved by suspension of investments in power generating assets and some kind of cannibalisation of the existing assets without their reproduction.

IMPACT OF RES

The support systems for renewable energy sources have resulted in vast investments in such generation across Europe, and the priority of RES in power dispatch, has led to the diminishing periods of operation of the conventional power generation. For example, the operation time for gas power plants in Spain, dropped from over 5,000h per year to less than 3,000h, within a few years, as a result of RES priority. Operating in shorter time, conventional power units are not able to recover all their costs from the competitive energy

market. However, gas and coal power units are necessary for flexible and reliable power system operations. So, some European countries, a few years ago, started the introduction of power supporting mechanisms, commonly known as power markets or capacity markets.

MISSING MONEY AND MISSING CAPACITY

There are two main flaws identifiable in the 'energy only market': missing money and missing capacity. The former describes a lack of income from electricity markets to maintain and keep dispatchable the existing generation. It relates mostly to gas power stations. The latter indicates a lack of investments in new power generating capacity to balance the demand for power and electricity in the years to come.

The missing money problem is usually addressed by various mechanisms of payments for dispatchable capacity of power reserves, in particular, in peak demand periods. The missing capacity problem can be reduced by the introduction of contracts for difference (Cdf) for new power generators, providing the warranty to cover differences between the income from electricity markets and the real costs of new entries. The Cdfs reduce the risk of investments with a long-term horizon of return.

Investment in generation capacity needed

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SUPPORT SCHEME

New investments require a support scheme which is able to reduce the risk of the return. Such a scheme can be implemented as optional balancing contracts for new power generating capacity. Balancing contracts will be an obligation to offer power capacity to the electricity and balancing markets, providing the warranty of the compensation for spreads calculated as the difference between market prices and the cost of operation, including fuel and O&M costs. The balancing contracts are contracts for differences, allowing for the reduction of investment risks. The characteristic features of a new scheme which is under consideration, listed below, reflect the fulfilment of the Guidance of the European Commission.

MINIMISING IMPACT ON THE ELECTRICITY MARKET

The scheme presented is currently discussed in Poland as one of the measures to reduce a lack of power balance, and as an encouragement to the construction of new power generating assets. The balancing contracts will be granted in the limited amount range – no more than 800-1000MW per year, for a period not longer than 10 years, with the capped price about 0,25mln Euros per MW.



KEEPING COSTS LOW

The support scheme will be implemented in the tendering procedures, announced by the Transmission System Operator, under the supervision of the Energy Regulatory Authority. The contract payments will perform only in periods when the market prices are not able to ensure non-negative spreads.

It is likely that the increase of electricity prices, after 2020, will result in no payments to the proposed scheme, as the market prices will cover all costs of the new assets.

Technological neutrality and emission reduction

All technologies will be considered in the supporting scheme giving preferences to the installations being able to replace worn out equipment and provide reductions of CO₂ emissions of at least 30%,

when compared to the demolished plants.

CROSS-BORDER PARTICIPATION

The scheme will be available for power generating installations connected in other grids, after the mutual arrangements of the TSOs allowing for access to cross-border connections and avoiding double calculation of power capacity in the generation adequacy of adjacent power systems.

MONITORING, EVALUATION AND PHASING OUT

The balancing contracts will be announced each year by the TSOs, after the detailed analyses of power generating adequacy. The scheme operation will be limited to the period 2020-2030, and will be stopped early, if the analyses indicate sufficient power adequacy. 

Władysław Mielczarski

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4th European Coal Days – joint statement of CEEP and EURACOAL



The 4th European Coal Days (12-14 November 2013), hosted by MEPs Christian Ehler (EPP, Germany) and Bogdan Marcinkiewicz (EPP, Poland), ended in the European Parliament with a breakfast event chaired by MEP Jan Březina (EPP, Czech Republic) to launch a new edition of EURACOAL's "Coal industry across Europe".

Taking place at the same time as COP 19 – the important UNFCCC climate conference in Warsaw – the aim of the coal days was to bring to the attention of policy makers how clean coal technologies offer an immediate step towards a low-emissions economy. In a world where 1.3 billion people have no access to electricity and where China's growth in coal consumption last year exactly matched the total annual output from the European coal industry – 130 million tonnes – there can be no getting away from the need for a global solution to the climate challenge. The European Union acting alone

can make little difference to the global picture. Being abundant and affordable, coal will be used for decades to come to meet modern society's legitimate demand for energy. Adopting cleaner, more efficient and more flexible coal technologies is not an option - it is an imperative.

At a dinner debate hosted by the European Energy Forum and chaired by MEP Jerzy Buzek (EPP, Poland), the Deputy Prime Minister of Poland and Minister for the Economy, Mr. Janusz Piechociński, explained his country's position towards coal. With about 88% of Poland's electricity coming from coal, it is not about to turn its back on its vast indigenous coal and lignite resources. However, it will take steps to improve the way coal is used and develop alternatives. Investment in new coal-fired power plants is planned, renewable energy will be promoted and nuclear power remains desirable in a country that relies on Russia for almost 80% of its natural gas imports.

On average, 27% of EU electricity production comes from coal. In fact, it is only coal that



CEEP working breakfast - Inauguration of the 4th European Coal Days', Jarosław Zagórowski, President of the Management Board of Jastrzębska Spółka Węglowa S.A. (JSW S.A.), and Vice-Chairman of the Board of Directors, CEEP.

provides any real competition to natural gas in the electricity market. Subsidised renewables and base-load nuclear always run – even when wholesale prices are zero. Take coal out of the equation and there would be no limit to the already high premium demanded by suppliers of natural gas.

Organised by the European Association for Coal and Lignite (EURACOAL) and the Central Europe Energy Partners (CEEP), the three-day event saw the coal industry issue a "call for action" by way of a communiqué developed in cooperation with the Polish Ministry of Economy.

The Warsaw Communiqué calls for the immediate use of high-efficiency, low-emissions coal combustion technologies, wherever economic and technically feasible at existing and new power plants, as an immediate step in lowering greenhouse gas emissions from coal-fired power plants around the world and as a necessary milestone towards the deployment of carbon capture utilisation and storage technologies (CCS), once these are demonstrated and commercialised.

Governments should set an ambitious pathway before COP 20, to move the global average efficiency of coal-fired power generation plants to current state-of-the-art levels and to support R&D efforts to further improve the efficiency of coal combustion technologies.

4th European Coal Days – joint statement of CEEP and EURACOAL

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CEEP working breakfast - Inauguration of the 4th European Coal Days', Jerzy Buzek, MEP

International financial institutions, such as the European Investment Bank and the European Bank for Reconstruction and Development, should support developing countries and countries in Central and Eastern Europe in accessing clean coal Best Available Technologies (BAT), including high-efficiency, low-emissions coal combustion technologies.

With a clear, long-term framework and with a government commitment to a CCS infrastructure, the coal industry can get on with its job of

investing for the future. This is demonstrated today with some new investment in modern coal-fired power plants around Europe – for example, in Bulgaria, the Czech Republic, Germany, Italy, the Netherlands, Poland, Romania, Slovenia and Turkey – but the investment is patchy and insufficient. To quickly reduce emissions, the EU's 230 GW of coal-fired power plants require faster renewal and modernisation – three times faster than today. A long-term commitment to clean coal would allow industry to raise finance and deliver tangible benefits, including a more than 30% reduction in CO₂ emissions from the oldest plants.

The Warsaw Communiqué will be presented by the World Coal Association to world leaders at the COP 19 conference as a practical and pragmatic approach that balances economic development and energy security with environmental objectives.

Counting for the support from readers of the CEEP Report, we encourage everybody to support this initiative, which is available at <http://www.worldcoal.org/extract/the-warsaw-communicue/> 

CASE FOR COAL – THE WARSAW COMMUNIQUE

Extract from The Warsaw Communiqué

Recognising international consensus on the need to reduce global greenhouse gas emissions, in conformity with the objectives of the United Nations Framework Convention on Climate Change,

Recognising the need to address the problem of energy poverty, which still affects 1.3 billion who have no access to electricity and three billion who rely on wood and dung for cooking and heating their households, as reaffirmed during the United Nations Sustainable Development Conference and in the document the “Future we Want”,

Recalling that the International Energy Agency has estimated that half of the on-grid electricity needed to provide “sustainable energy access for all” will come from coal,

Recalling that hard coal and brown coal play a major role in delivering electricity and energy across the globe, supplying over 40% of global electricity generation and almost 30% of global primary energy consumption, coal is a fundamental ingredient for the creation of steel and concrete, has been the fastest

growing energy fuel in the first decade of the 21st century and has been a critical enabler in economic development and poverty alleviation globally,

We note that while Parties to the UNFCCC have not been able to agree on an international legally binding agreement setting out a pathway for reducing greenhouse gas emissions from both developed and developing countries, existing international environmental agreements refer to the use of best available technologies for minimising the environmental footprint of various industrial and power generation processes, taking into account national circumstances and the economic and technical feasibility, and affordability of those technologies,

We therefore bring to the attention of policy-makers the fact that high-efficiency low-emissions coal combustion technologies are commercially available and, if deployed, can reduce greenhouse gas emissions from the entire power sector by around 20% (equivalent to the total annual CO₂ emissions of India) - a low-hanging fruit in global GHG mitigation which should be given more attention in the current context of global economic slowdown,

We also underline the potential of other innovative coal technologies, such as coal gasification, which can further enhance the role of coal in the low-emissions economy.

ENERGY DIALOGUE AT THE REICHSTAG



Arash Duero

By Arash Duero

The 41st Energy Dialogue at the Reichstag - at the invitation of Prof. Dr. Friedbert Pflüger, Janusz Reiter and Central Europe Energy Partners (CEEP) – discussed the financing of Germany’s ‘Energiewende’ on October 23rd, 2013 in Berlin.

Dr. Ulrich Schröder, the CEO of the KfW Banking Group, opened the discussion by stating that the climate and environmental policy goals of the German ‘Energiewende’ have apparently been given greater priority over the issues of energy security and affordability. He underscored this assertion by detailing the greater progress that has been made towards achieving the country’s climate policy targets relative to other energy policy objectives. While the KfW has played an important role in advancing the country’s climate policies by financing energy efficiency measures, as well as renewables and clean energy technologies, Mr. Schröder highlighted the need to provide additional support to other key energy sectors. Going forward,

he asserted that the aims of energy security and cost-efficiency should not be neglected, and identified four tasks, which must be accomplished, in order for the German energy transition to succeed. They are: enhancing the energy efficiency of buildings, revising the current feed-in tariff scheme for renewables, ensuring the profitability of gas-fired power plants, and expanding the national transmission and distribution grids.

Peter Terium, CEO of RWE, noted that the debate revolving around the ‘Energiewende’ has noticeably shifted its focus over the past year from predominantly climate and environmental issues to questions dealing with financing and costs. He warned that there is a growing perception among analysts and finance experts that the German and European energy sector is increasingly becoming ‘uninvestable’. Mr. Terium stressed that a well-designed and predictable framework for investments in renewable energy, as well as conventional power plants, is the best ingredient for the efficient utilisation of capital in the energy sector. Furthermore, he stated his belief that the ‘Energiewende’ can succeed, if three key points are kept in mind: 1. There is a sufficient capital. 2. The capital must be utilised more efficiently. 3. The free market is the best guarantor of an efficient allocation and use of capital. 

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