The EU 2030 Climate and Energy Framework

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Overview

1. Recap of EURELECTRIC position
2. Commission 2030 proposal evaluation
   1. 40% - what does it mean for our sector
   2. Getting the ETS on track?! 
   3. 27% in RES across EU – the unanswered question
3. The long road to finalising a 2030 framework
1. Recap of our key positions
Today: internal energy market or x28 chaos?

ENERGY MARKET INTEGRATION AND (MORE) PREDICTABLE POLICIES

ETS as the key driver
Strong innovation policy

MARKETS ARE FRAGMENTED AND POLICIES ARE START/STOP

National RES and EE schemes
National carbon price floors/taxes
National capacity mechanisms

UK carbon price floor
NL coal tax
What ambition, when?
Early, economy-wide, high ambition

- Climate is a lower political priority than before the economic crisis, BUT there is still some priority and therefore some policy ambition.
- The power sector is always the first (easy) target for climate policy.
- Therefore we face a choice:

  - **No ambition**
    - (Not a realistic option for the power sector)
  
  - **Low ambition**
    - Costs the power sector investment in low-carbon technologies and loss of market share from energy saving
  
  - **High ambition**
    - Gains the power sector new market share through electrification of additional sectors
Power Choices Reloaded’s *Lost Decade* modelling scenario assumes a complete lack of action in the decade 2020-2030, therefore the entire decarbonisation action has to occur in the last two decades to 2050. Infrastructure, power sector decarbonisation, mobility electrification and technology R&D, as well as energy efficiency in the demand side sectors will have to develop in a very short period of time post-2030. The changes required in the system from 2030 to obtain the necessary cumulative emissions reductions by 2050 result in this scenario being barely feasible in reality.

**Key failures involved in the Lost Decade case**

- Weak carbon market until 2030
- Limited financing under uncertainty hampering investment
- Market coordination failures delaying infrastructure
- Non-completion of IEM leading to low cross-border energy trade
- Slower pace of technology progress: learning curves and build up of supply chains
- Delays to energy efficiency persisting up to 2030, especially on the demand-side and in electrification

**Average Price of Electricity, after tax**

(Euro‘10 per MWhe)

- **Lost Decade**
- **Reference**
- **Power Choices Reloaded**

![Graph](image-url)
Our view: ETS problems and reforms
3 different problems, 3 different solutions

1. Short term: Surplus of 2bn-2.5bn allowances
   Solution: Permanent set-aside

2. Medium term: Fixed supply and demand shocks result in price volatility
   Solution: Supply adjustment mechanism

3. Long term: The ETS cap is not coherent with the EU 2050 goal
   Solution: Revise the linear factor
2. Commission 2030 proposals from 22 January 2014
Decoupling emissions from economic growth

- **Decoupling** between economic growth and GHG emissions:
  - EU GDP growth 1990-2012: 44%
  - Emission decreased by 18% during the same period
  - Continued decoupling in a 2030 perspective
    - Projected GDP growth 2012-2030: 34% (1990-2030: 93%)
    - Emissions decrease by -40% 1990-2030
What does a 40% GHG target mean?

40% across the whole economy

- 43% compared to 2005
- 30% compared to 2005

ETS sectors
- = power and energy intensive industry
  - power sector decarbonisation signal

Effort-sharing sectors
- = transport, buildings… agriculture etc
  - electrification signal
  - ?%

Linear factor
Stability reserve

CO2 cars
Energy efficiency

Transport in ETS?
Energy labelling
Eco-design
EPBD
ETS reforms

Done:
• Back-loading (2014)

Proposed:
• Market stability reserve (2021)
• Linear factor increase (2021)
• Global aviation ETS (2016)

Under consideration:
• Include maritime transport, other transport fuels (tbc)
Market Stability reserve

Commission has identified the inflexible supply of allowances as the key item for the allowance surplus

Positive:
- Can support the ETS market balance in case of future economic shock
- Slowly addresses the surplus
- Built on simple, transparent, robust design

But:
- Commences 2021
- Too slow to address surplus

→ 2030 ETS reforms are too little too late – we need action sooner!
Four possible outcomes re the RES target

1: EU RES target delivered through national targets and support schemes
   Market fragmented and distorted

2: EU RES target with EU harmonisation of support schemes (not yet clear how this would work)
   Market distorted but not fragmented

3: EU RES target delivered through ETS (mature RES) and innovation support (immature RES)
   Fully market compatible

4: No EU RES target
   Unlikely in light of Commission, German, and European Parliament opposition....
The RES increase challenge
21% of electricity mix today to 45% by 2030

EU RES 2013 – approx. 21%
7% biomass
7% hydro
7% intermittent

EU RES 2030 – approx. 45%
7% biomass
7% hydro
31% intermittent

a x4.5 increase in intermittent generation?
**Binding RES target at EU level**
Postpones policy instrument decision (with some hints)

RES “must continue to play a fundamental role”
… RES national support schemes today “address national and regional specificities but at the same time can hinder market integration and reduce cost-efficiency”
… RES deployment “affects the competitiveness of other energy sources and reduces investment incentives for generation capacity that will be needed for the transition”
… In future RES must be “to the greatest extent possible market driven”

GHG 40% reduction target “should by itself encourage” at least 27% RES: set as EU target
… The target is binding on EU but not on the Member States individually
… It would be fulfilled through clear commitments decided by the Member States themselves in relation to energy mix and preferences, but within the limit that “different national support schemes need to be rationalised to become more coherent and to comply with competition and State aid rules to avoid market distortions and ensure cost-effectiveness”
… If necessary, these Member State RES commitments “would be complemented by further EU action and instruments to ensure delivery of the EU target”

RES 27% target will mean that the at least 45% RES in the electricity mix (increasing from 21% today).
Binding RES target at EU level
The Commission’s strategy (reading between the lines)

Step 1: The 40% GHG target will in itself deliver at least 27% RES

Step 2: The Treaty does not allow the Commission to prevent Member States from having national RES policies…

Step 3: …but the Commission can use EU market, competition, and state aids law to limit what sort of policies the Member State can use

Step 4: If, during 2014-15, Member States decide that neither the 40% GHG target, nor the EU market-compatible national policy options, is sufficient to deliver 27% (or higher) RES growth, then…

Step 5: The Commission would consider additional measures at EU level

Step 6: Likely the Commission’s preferred measures would be a stronger ETS plus more RES innovation support
3. The long road to finalising a 2030 framework
The road to a 2030 framework

Step 1: 22 Jan 2014: Commission proposals on goals

Step 2: March 2014: European Council political decision on goals

Step 3: 2015: Commission drafts legislation to implement goals, spread burdens

Step 4: 2016-17: Parliament and Council Co-Decision on legislation

Step 5: 2018-19: National transposition where necessary
The road to a 2030 framework
It’s not over until the lady sings…

Step 1: 22 Jan 2014: Commission proposals on goals
These are only preliminary recommendations

Step 2: March 2014: European Council political decision on goals
Politicians can ignore recommendations – postponed decision to autumn

Step 3: 2015: Commission drafts legislation to implement goals, spread burdens
The devil is in the details
And new Commissioners might have new ideas

Step 4: 2016-17: Parliament and Council Co-Decision on legislation
The EP definitely has its own ideas
Elections in Member States can mean changes of government

Step 5: 2018-19: National transposition where necessary
More details