



Polski Komitet Energii Elektrycznej

Polish Electricity Association

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Warsaw, February 28th 2013

## **Position paper on the Report from the Commission to the European Parliament and the Council – *The state of the European Carbon Market in 2012***

The Polish Electricity Association welcomes the opportunity to contribute to the debate on the future of the Emissions Trading Scheme and Europe's energy policy in general.

### **Polish power sector commitment**

First of all, let us underline the fact that the **Polish power sector is deeply committed to decreasing its environmental impact**. The energy mix of the Polish power industry is currently changing rapidly. The share of fossil-fired generation capacity is decreasing every year alongside increasing share of renewables in the grid. Currently 4,4 GW of installed capacity in Poland are renewable energy sources, up from ca. 350 MW in 2008 when the climate-energy package was adopted. **The share of RES in the fuel mix during this time has risen from ca. 1% to ca. 12% today and Poland is well on track to meet the 2020 target**. At the same time, new, more efficient fossil-fired capacity is gradually replacing older units – as a result the **carbon intensity of power generation is decreasing**.

The Polish power sector is thus in the midst of a transition to more efficient and cleaner generation technologies. This trend will be further strengthened during the 2013-2020 period during which a national investment plan – modernization and diversification of the generation and transmission assets will take place thanks to the derogation from full auctioning of carbon permits.

At the same time, the Polish Electricity Association believes that this transformation needs to take place gradually and not abruptly, particularly during these difficult times for the sector due to economic crisis and lowered electricity consumption, combined with a very hostile investment environment. **Given the fact that CO<sub>2</sub> emissions are a global problem, we should first engage Europe's global partners in comparable climate commitments prior to setting further targets domestically.**

## European energy policy – delivered?

The current state of the European energy sector brings us to ask a more fundamental question rather than focusing solely on one element - the carbon market. Europe is clearly at a crossroads when it comes to the execution of its energy policy in general. The current EU energy priorities were supposed to give equal weight to security of supply, competitiveness and sustainability, underpinned by the internal energy market<sup>1</sup>.

It is fair to say, however, that **these policy objectives are not being realized**. Security of supply, defined predominantly as **reducing energy import dependence, has not improved** over the years since the energy policy was first introduced in 2007. Energy dependence rate at that time stood at around 54%. Recent Eurostat news release reports that number to remain unchanged in 2011 while energy consumption went down by 6% between 2008 and 2011.

On the more local level, the security of electricity supply looks to be very fragile in the midterm due to **complete deterioration of the investment climate with regard to stable power sources** across Europe. Falling power prices coupled with less working hours for conventional power plants due to unbalanced and in many cases excessive RES support undermine investor confidence and cause investment projects to be delayed or outright cancelled.

Turning to competitiveness, which the Commission described as **job creation, promoting innovation and the knowledge-based economy in the EU thanks to investment in particular in energy efficiency and renewable energy, this also proves to be difficult to confirm**. European companies have already lost the lead to a large extent in solar PV manufacturing to Chinese competitors and the same trend is being observed in wind energy. Vestas, the leading producer of wind turbines, has been closing factories in Denmark and opening them in China while struggling to remain profitable. Clearly this is not the outcome the Commission has envisaged.

At the same time, the social dimension of the energy policy – **affordability of energy for consumers has also suffered**. Between 2008 and 2011 average household electricity prices in the EU increased by over 10% and are rising at an even higher rate right now with increased penetration of expensive solar PVs, with Germany being the most notorious example.

The third EU goal, sustainability, defined as the **need to reduce EU and worldwide greenhouse gas emissions has proven equally difficult to reach**. Whereas European Union is well on track to meet its 2020 GHG reduction target, the rest of the world, most notably the biggest emitters, are not following suit. The EU puts at risk its economy by inducing *carbon leakage* – which would in fact increase world's emissions by moving energy intensive manufacturing to countries with less stringent environmental goals.

Finally, **the internal energy market that was supposed to support the achievement of these goals is far from being completed**. In fact, there is less and less scope for a truly competitive market around Europe these days. Subsidized renewables enjoy priority access to the grid and are not subject to any competition. Windy days coupled with low demand cause wholesale energy prices to drop below zero, which is definitely not the result the European Commission was hoping for while promoting “*effectively functioning and competitive Internal Energy Market*”. This situation is forcing many energy companies to cease operation of some of their conventional power plants, in many cases brand new, that results in huge societal cost of stranded assets. This situation as well as lack of incentives for

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<sup>1</sup> As presented in the **Communication from the Commission to the European Council and the European Parliament - an energy policy for Europe {SEC(2007) 12}**

new capacity is prompting many countries to design emergency measures in some type of capacity markets. These are seen as (and indeed to a large extent currently are) the only solution to the problems faced by the European energy markets. As such, they are one additional complexity towards achieving a truly common energy market.

## Which way out?

**We believe the EU should once again rethink its energy sector goals and policies as well as re-schedule their related implementation timeframe.** The current model has clearly failed. The ETS is not driving investment into renewables – the national subsidy schemes are. It seems that it is indeed time to make a **renewed commitment towards a truly pan-European energy policy** – one that takes advantage of a **common European market** and does not fence off national energy systems; one that really serves as an example for the world in designing environmental measures that encourage global cooperation; and one that **takes into account the differences between Member States in terms of their natural resources on one hand, and level of economic development on the other hand.**

**We believe Europe has a big chance to really tap into its resources where it makes most economic sense while guarding the competitiveness of its economies and promoting convergence of living standards.** While we do have a united Europe, we are far from economic unity. GDP per capita in purchasing power standards (PPS) varied by one to six across the member states in 2011. The four countries with the highest electricity prices in PPS are all new member states, while seven of the eight countries with the lowest prices in are all old member states. These factors cannot be overlooked by designing a one-fits-all policy.

## ETS reform – what is the right approach?

**The European Emissions Trading System, if it is to be effective in reducing emissions across Europe needs a radical overhaul.** And not the one the Commission is currently proposing. The structural measures presented in the report will not provide a solution to the problems faced by the European energy sector and would not improve investors' confidence in a market that needs more than few years' out predictability. They present short-term fixes to a system that in its design will not deliver the desired policy objectives. **We believe that EU has to fundamentally change the way the policy objectives are being pursued by different policy measures.**

**It is worth noting that the ETS is indeed working exactly as intended.** The system is delivering the necessary emissions reductions in the most cost-efficient manner. The primary principle of the Emissions Trading Scheme laid out in the Directive 2003/87/EC is to find the most economically justified way to reduce emissions. Moreover, as stated in the introduction to the Report (par. 3) ETS *"is designed to be technology neutral (...) and fully compatible with the internal energy market"* therefore all generation technologies should be treated on equal basis.

Maintaining the required reduction trend is assured by establishing an EU-wide cap as of January 2013, which will be met irrespective of the carbon price allowing Europe to achieve the targets set out for 2020 cost-efficiently. **The system was designed as such, that the lower the CO<sub>2</sub> price while staying within the cap, the more cost-efficiently the system works.**

What we are suggesting is a more thorough reform of the EU energy policy as a whole (not only the EU ETS) that would eliminate some of the system's biggest flaws while protecting the fragile European economy. A system which balances punishment and reward on the Member States' level, where the reduction path would be defined taking into account both

the emission reduction potential as well as the ability to pay, i.e. the level of economic development.

The Polish power sector is committed to working together with the Polish government and the European Commission towards reaching the most important European energy objectives and will propose a new approach to the European energy and climate policy in the coming weeks.