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OPINION

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# OPINION ON THE STATE OF THE ENERGY UNION 2015


## Executive summary

- CEEP welcomes the First State of the Energy Union as a clear step towards more reliability of European energy and climate policies. CEEP therefore supports the Commission's attempt to realise reliable national energy and climate plans. They should ensure a more coherent approach towards the achievement of the objectives of the EU's 2030 Climate and Energy Framework, while avoiding to limit Member States in the choice for their way towards decarbonisation.
- CEEP encourages the European Commission to involve social partners even more in the whole process and to keep citizens and customers at the heart of the transition of the European energy system. More than ever, public acceptance is indispensable for the successful implementation of energy and climate policies. In this context, a stronger focus on the local and regional dimension of the Energy Union, with the inclusion of citizens beyond their sole capacity as consumers, would also be helpful.
- As heating and cooling account for half of Europe's final energy demand, CEEP very much welcomes that the Heating and Cooling Strategy sends out a clear sign in favour of efficient and sustainable solutions. We very much welcome that this has already been announced by the State of the Energy Union, among others by underlining the good example of high-efficiency combined heat and power (CHP).
- A fully-integrated internal energy market should indeed be at the heart of the Energy Union project, among others through the full implementation of the Third Energy Package and a market based approach to renewables. As in the medium to long run the energy-only market will not be sufficient to ensure security of supply, a new market design that values the provision of firm capacity should be developed.
- CEEP very much welcomes the holistic approach that the State of the Energy Union announces for upcoming Commission initiatives and is particularly delighted by the recognition of the crucial role of transport. The decarbonisation of this sector has to be tackled more than in the past through concrete action at EU level.
- CEEP members need the right conditions to actively anticipate and manage the energy transition and therefore welcome that this crucial issue is highlighted in the State of the Energy Union, among others in view of its skills dimension.



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## General remarks

CEEP welcomes the First State of the Energy Union as it can be seen as a clear commitment to more reliability of European energy and climate policies in the future. Public services providers hope that the State of the Energy Union will give an additional and clear push to the EU contribution to a successful and reliable climate policies in the aftermath of COP21.

In order to make the Energy Union a success, we emphasize that high attention should be given to the interaction between the energy, waste and transport sectors, to tap into the full potential of sustainable growth and job creation. We therefore welcome that the State of the Energy Union announces a more effective coordination between the Energy Union, the Digital Single Market and the Circular Economy. Such interaction should not be hampered by EU legislation.

## The crucial role of reliability: The national energy and climate plans

We support the Commission's approach to better than before coordinate national policies to ensure a more coherent approach towards the reliable achievement of the objectives of the EU's 2030 Climate and Energy Framework. The State of the Energy Union rightly emphasizes that the national energy and climate plans are a very important tool to increase the reliability of the European climate and energy policies. We are convinced that they have the clear potential to help ensuring the predictability that public services' providers seek in their investment decisions and their job creation potential.

In order to ensure that the targets for 2030 remain a stable orientation for policy and investment decisions, it makes indeed sense to install a monitoring system that brings together the different contributions of Member States. It allows a much more harmonised framework than what exists now for the 2020 targets, including streamlined indicators. At the same time, it is also important to avoid that the plans get too bureaucratic and that they take away the freedom of Member States to choose their individual track towards decarbonisation. In doing so, the Commission should guarantee a comparable quality of data from the MS. The national energy and climate plans must not be a tool to impose certain technologies to Member States.

As a cross-sectoral social partner at European level, CEEP very much welcomes that the State of the Energy Union underlines the important jobs and growth perspective of the Energy Union. In this context, we are also pleased to read that Member States are encouraged to "discuss with social partners the consequences of the energy transition". However, we would welcome even more if the upcoming guidance documents would make this point very concrete by suggesting to include the social partners in a transparent and regular process in the drafting of the national energy and climate plans. At the moment, the involvement of social partners varies significantly from one Member State to the other. This would however endorse the jobs and growth dimension of the Energy Union as it is the social partners who know what is feasible and where the barriers and opportunities are to be identified.

Finally, when it comes to the creation of a beneficial environment for investments, we would very much welcome if the Commission could help to aggregate smaller investment projects in the field of energy, in particular in view of funding projects by the European Investment Bank. The State of the Energy Union announces the right direction that needs to be put into practice now. Such projects should also include cross-sectorial projects that can demonstrate how interaction between different actors facilitates sustainable innovation.

## The local and regional dimension of the Energy Union

We encourage the European Commission to go on with keeping citizens and customers at the heart of the transition of the European energy system. More than ever, public acceptance is indispensable for the realization of highly needed infrastructure projects. In this context, a stronger focus on the local and regional dimension, with the inclusion of citizens beyond their sole capacity as consumers, of the Energy Union would be helpful.

This means concretely that besides the focus on investments in cross-border connections also important investments in the distribution grids need to be addressed more than now. Currently, the distribution grids are not fully ready to absorb the continuously increasing amount of renewable energy – and thus impact on the overall goals of a secure, competitive, sustainable and affordable European energy system. Moreover, the role of the local level in investing in high-efficient and low carbon intensive technologies should be recognized and supported more than now, among others through more support for small and medium scale projects (see also above for the demand for further facilitation of project aggregation) or as well through the integration of local and regional authorities in the drafting process of the national energy and climate plans, going beyond what is foreseen within the stakeholder consultation foreseen in the guidance document that accompanies the State of the Energy Union.

In order to ensure a secure, competitive and sustainable European energy system, it is also important to fully exploit the potential of cross sectoral cooperation within the green business segments. In this context, local utilities have significant experience with sustainable corporate strategies. Energy utilities produce renewable energy, waste companies generate bioenergy and provide district heating, harbours and transport companies help limiting emissions from the transport sector. These enterprises, if private or (in many cases) publically owned, must be enabled to cooperate in order to create holistic solutions to the challenges on the way to truly sustainable solutions (economically, environmentally and socially). European legislation should be designed in a way that encourages such cross-sectorial projects and that does not hamper them. CEEP is concerned if new EU legislation puts the focus on the question of ownership and/or the structure of companies. In certain cases, rules on business separation that lack flexibility can severely limit the potential of cross sectorial projects, in particular at the local level. Rules for accounting separation must of course be followed and monitored.

## The upcoming Heating & Cooling Strategy

As heating and cooling account for half of Europe's final energy demand, we very much welcome that the Heating and Cooling Strategy sends out a clear sign in favour of efficient and sustainable solutions. We very much welcome that this has already been announced by the State of the Energy Union, among others by underlining the good example of high-efficiency combined heat and power (CHP). This recognises the sector's major importance for the achievement of the 2030 climate and energy targets.

In general, no new legislation in the field of heating and cooling is needed. However, in the upcoming review of the Energy Efficiency Directive, but also the reviews of the Energy Performance of Buildings Directive and the Renewable Energy Directive, it should be ensured that the supply and demand side are both considered and well balanced among each other.

Regulation and definition of 'nearly zero-energy' (NZE) buildings should apart for concerns of energy efficiency and renewable energy be neutral to the choice between individual building based solutions and common energy systems such as district heating and district cooling.

EU-policy should focus on overall achievement of EU and Member States targets rather than on detailed legislation on how to reach it. Examples of too detailed and misdirected legislation includes demands on yearly renovation rates for public buildings, demands on individual measurement and billing of energy costs that can lower incentives for building owners to take measures and demands on energy audit in big enterprises that does not consider the amount of energy use, but just the size of staff and economy.

Furthermore, it needs to be ensured that the implementation of the Heating and Cooling Strategy and other European policies, in particular competition policies, are aligned. A better integration of resource efficient technologies such as combined heat and power (CHP) into the State Guidelines for Energy and Environmental protection is needed. Furthermore, national initiatives that go into the direction set in the European strategy and that Member States notify to the Commission should get the Commission's support if they don't distort the market, even if this requires an adaptation/interpretation of the existing state aid rules in view of the achievement of the energy and climate targets.

## A fully integrated internal energy market

A fully-integrated internal energy market should be at the heart of the Energy Union project. In this context, CEEP very much welcomes that important attention is given to the full implementation of the Third Energy Package. This should be the first priority as existing legislation should be implemented before bringing new legislative proposals on the table. Currently, the degree of application of existing energy legislation still varies significantly between Member States.

Furthermore, a market based approach to renewables is key in order to realize a functioning internal energy market. This will create the stable regulatory framework necessary to bring investments back to the energy sector and to avoid that investors are faced with 28 national fragmented systems.

In order to achieve this, not only a true and fair carbon price that sends the right market signals investments in low carbon intense technologies is needed, but also measures that ensure that the best technologies are competing in those regions where it is most needed and appropriate. Support schemes that are not subject to market considerations, such as non-premium feed-in tariffs, must be phased out. Moreover, a competition oriented bidding process as well as a stronger coupling of the economic risk for plant owners to the trading price of electricity would also lead to a market-oriented strengthening of renewable energy sources.

In general, a balanced approach to electricity market design, taking note of regional varieties and other sectoral and cross-sectoral policy areas, could ensure that the energy transition succeeds and that fossil energy sources are replaced gradually, while at the same reducing overall energy consumption. In addition to a balanced approach to the efforts on energy efficiency, a new market design should therefore ensure that subsides for fossil fuel will be equally phased out.

Furthermore, as in the medium to long run the energy-only market will not be sufficient to ensure security of supply, a new market design that values the provision of firm capacity should be developed. In this context, regional approaches to capacity mechanisms are needed and require more support at European level.

If Member States introduce capacity mechanisms of some sort on their national territory some principles must be guarded. Mechanisms should preferably be open for any capacity from neighboring countries, where sufficient interconnection exists. When introduced by Member States, they should not contribute to a lock-in of inefficient and polluting generation capacity. Against the background of the overarching European climate and energy targets, generation adequacy measures should facilitate the market participation of flexible technologies which can fill in at times of low supply (e. g. highly-efficient and flexible CHP plants, power storage, programmable renewable power generation and demand-side management programs). Like this, flexibility options and high efficiency will be chosen.

## The crucial contribution of transport

We very much welcome the holistic approach that the State of the Energy Union announces for the upcoming Commission initiatives and we are particularly delighted by the recognition of the crucial role of transport. The State of the Energy Union rightly highlights that one third of the greenhouse gas emissions in the sectors that are not covered by the European Emissions Trading Scheme ("non-ETS sector") come from transport. It is therefore more than appropriate to tackle the decarbonisation of this sector more than it has been done so far. CEEP members therefore impatiently wait for the Commission communication on concrete actions that are needed to decarbonise all modes of transport.

This decarbonisation of the European transport system is needed to decarbonise our economy as a whole, but also to create finally a fair competition between transport providers. Currently, some of the least carbon-intensive transport modes are those that are the most disadvantaged. E.g. local public transport and rail services represent the most sustainable transport solutions in many respects, they account for relatively low levels of emissions. Despite this, these transport modes are often put at a disadvantage, in particular rail freight is burdened with higher costs.

Emphasis should also be put on sea transport and multimodality. Freight and passenger transport by sea and rail are indeed efficient and sustainable alternatives to road transport. The EU should therefore support projects to improve the intermodality of ports, rail and road transport. In the same sense, projects regarding electrification of harbours and use of batteries in ferries are promising and should be supported as they could provide sensible additions to curb emissions.

The EU ETS current design de facto impacts rail transport (in an indirect manner via traction electricity) whilst nor road transport nor the fossil fuels it uses are covered. As a quick extension of the ETS to all transport modes might be too difficult to realise. We therefore plead to start by addressing the needed change of unfair tax regimes between modes and the establishment of the true cost of transport by pricing in factors that are currently externalised on the roads. The principle of the internalisation of external costs (such as emissions/ air pollution, noise, accident cost and other transport-related negative externalities) needs to be realised very quickly. This is the only way that a fair competitive

environment between road and rail can be gradually established – and the overall goal of decarbonisation achieved. These principles should also guide the recast of the Eurovignette Directive that needs to be prioritized, without however prejudicing the right of authorities and cities to design and establish their own road user charging and access restriction regimes to best meet their individual circumstances.

The implementation of measures to internalise external costs and apply the polluter-pays principle can allow generating new resources. CEEP believes that these should mainly be used for developing the most sustainable transport modes, i.e. public transport. This may require cross-sector financing ("transport finances transport") rather than a separation between modes (e.g. "road finances road").

So far the EU approach to the decarbonisation of the transport sector is rather limited, and mainly limited to private cars, if at all. This does not solve the issue of too high CO2 emissions in the transport sector, also not the problem of congestion and the lack of public space. We therefore plead for a stronger focus on public transport, which has to become the backbone of urban mobility. Next to walking and cycling, public transport is the most resource-efficient way of travelling. Public transport systems can move large number of people across town within a short time. Doubling the use of public transport should be the objective and would contribute considerably to the decarbonisation of the whole society.

## Anticipation and management of change

We are delighted to see that the important issue of anticipation and management of change in the energy transition is tackled by the State of the Energy Union. The energy transition also has a tremendous impact on employers in the energy sector. This is what CEEP members experience in their daily business all over the European Union.

All of them observe that the energy transition requires new skills. In energy companies, more than ever, more focus is needed on training staff that can handle renewable, micro-grid operations. IT and project management becomes just as important as engineering and the management of conventional energy technics. Also in other sectors related to the energy system, such as waste management, new skills are needed to efficiently apply new waste handling solutions, often linked to energy recovery.

However, the changing energy mix and new business models also make our members face quite different challenges that are sometimes of completely opposite nature:

A first group of members, especially those who recently underwent structurally changes in an uncertain macro-economic environment, report their attempts to restructure their companies in a socially responsible way. In this context, one of their major challenges is the reintegration of all employees within the company or the labour market according to the individual skills of the employees. However, re-skilling and training are only one side of this challenge. The other one is to solve the problem of lacking mobility especially among qualified workers, less of staff members with university degrees. Jobs often cannot be offered at the same place, but only in other parts of the respective Member State or even other Member States.

These members try to anticipate with continuous trainings for all staff members in order to prepare the potential change of position in the future. But they also work on further improving their social programmes with trainings for re-skilling and new job offers in the case of such a future closure of a power plant or internal restructuring from energy generation to energy services (grid management/ distribution system/ customer relations), together with the respective social partner(s).

A second group of members encounters the opposite challenge: finding qualified employees for managing the energy transition, in particular qualified workers (there are less problems with potential employees with university degrees). This concerns mainly countries with solid economic development and who, at the same time, experience a considerable demographic change as baby boomers leave the labour market and fewer young people are coming after them. In some Member States, a dramatic increase of the problem could be observed within the last 1,5 years. In the competition with other sectors, the energy sector seems to be particularly touched, among others due to a problem of lacking attractiveness.

In response to these challenges, these members run or prepare campaigns to attract more people by increasing the attractiveness of the sector and thus change their image as employers. They also intensify their collaboration with schools and universities.

However, what all our members need are the right conditions to actively anticipate and manage the energy transition: A stable regulatory framework is key, independently if the company fits in either the one or the other group. Cost-intensive investment decisions in training and social programmes can only be done if there is a stable future for the enterprise at the horizon. It is in this context that we welcome and expect the next steps towards the regulatory framework of the Energy Union. The State of the Energy Union sets the right direction towards such an incentivising framework.