

Tallinn Memorandum

European energy market as a cornerstone of the Energy Union

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With publication and further legislative process on two comprehensive packages 'Sustainable energy security package' and 'Clean energy for all Europeans,' 2017 rightly may be called as a year of implementation for the Energy Union. In this critical moment, Central Europe Energy Partners (CEEP) is eager to contribute to the ongoing discussion addressing the emerging shape of energy related policies of the European Union. We believe that our point of view as the representatives of energy and energy-intensive companies from

Central Europe may add much needed diversity into the debate accompanying decision-making process. We would like to underline that social welfare and economic growth depend on affordable and reliable energy supplies.

We believe that cooperation of European Institutions with industries and utilities is crucial in the process of establishment of a viable business model which will accommodate public policy targets and internal market rules.

Energy Union

We appreciate efforts made by Vice-President of the European Commission, Mr. Maroš Šefčovič, to build a resilient Energy Union, which should enable secure, sustainable, competitive and affordable energy supplies for EU consumers. This project brings a qualitative change in the field of energy related policies and facilitates development of fully fledged internal energy market. As a pan-EU initiative, it should however encompass views and concerns raised by all stakeholders of the European Union. We stand ready to take part in this process.

Security of supply and solidarity

Security of supply is one of the key Energy Union dimensions. Thanks to the 'Sustainable energy security package' combined with infrastructural investments, gas supply security is going to be substantially improved. It is followed by anticipated better coordination of risk assessment and emergency procedures in the electricity sector. On the other hand, there are challenges ahead of us.

Domestic production of energy resources within the EU is shrinking, confronting us with increasing import dependency, which is

especially troubling if primary energy sources are provided by politically uncertain and unstable suppliers. Particularly visible in the gas sector is the increasing market concentration and strengthening position of dominant market participant—Gazprom—which will only be reinforced by the Nord Stream 2 pipeline, if constructed. In this regard, the EU as a whole should engage in a more strategic thinking towards its biggest supplier of energy—Russia, which could be effective inter alia by a commitment to apply its legal framework fully as well as efforts to mitigate its negative impact on Central and Eastern Europe.

Therefore, we call on the EU to support supply diversification projects and construction of LNG terminals and to provide stronger incentives for exploitation of domestic resources as well as to remove obstacles to their exploitation. In the electricity sector, the changing market model, marked by plummeting wholesale prices, poses a challenge of non-effective and deficient investment signals. In this regard, capacity markets amount to measures that should improve security of electricity supply across the EU, while safeguarding new investments and necessary capacity retrofits. Additional market reform is necessary to incentivize investments in a new capacity and keep existing conventional assets operational.

Besides, the oil sector remains quite diversified due to the substantial investments from the last few years. However, global changes in the oil market would determine further expenditure in oil storage facilities and critical oil interconnections.

Liberalised and integrated market

A liberalised internal energy market is the bedrock of the European energy policy. While still in the process of its establishment, it has already had considerable positive social welfare effect and contributed to the convergence of prices of both gas and electricity. Liquid and diversified markets are a prerequisite of security of supply. In this regard, we call for the non-discriminatory level playing field for all parties

active on the market. We perceive it as a principle underpinned both by uniform applicability of the EU law and technology neutrality which implies free, market based choice of energy sources and technologies to achieve expected economic targets. In this regard we call the EU institutions to differentiate between market oriented legislation which has mainly economic aims, and climate mitigation goals which are fulfilled by other tools, predominantly by the EU Emissions Trading Scheme.

Hence, we do oppose the introduction of the Emissions Performance Standard of 550 g CO₂/kWh (so called EPS 550) as an additional criterion for triggering the capacity markets. The postulated emissions standard in fact leads towards increasing natural gas import dependence and increases costs for consumers. Simultaneously, we urge the EC to uphold and strengthen its support for infrastructural Projects of Common Interests, which have a crucial role for increasing interconnectivity.

Sustainable energy

Energy transition is an irreversible priority for the EU. The Central European businesses have already demonstrated their commitments with substantial reductions of emissions achieved, higher energy efficiency, and deployment of renewable energy sources in line with the EU 2020 targets. We believe that this process should be continued in a balanced and fair way. By these, we understand that national and regional specificities should be respected.

According to technology neutrality principle, various technologies like nuclear power, carbon capture and storage, clean coal technologies, biomass or wind and solar should be treated on equal footing as they all contribute to achievement of the EU wide goals. A rapid race toward a 'target' without consideration of its social and economic costs may lead to a collapse of business models practiced, which in return would lead to a negative effect for the entire EU economy and regionally.

Emissions reductions

Central and Eastern Europe has persistently demonstrated its commitment to the reduction of GHG emissions. In comparison with 1990, it significantly decreased energy intensity of its economy and use of solid fuels as a primary energy resource, which had also important economic ramifications.

Anticipating a further need of GHG reductions, we call the EU to acknowledge the special compensation mechanisms and forms of support for regions negatively affected by energy transition. Furthermore, we highlight that the EU ETS is the main tool of the EU climate change mitigation policy and a primary mean to achieve a lower emission economy. In this regard, a crucial issue of price of the allowances should be determined by market signals.

Research, innovation and competitiveness

The place of the EU in the global economy and general social welfare of its citizens depends upon how competitive and innovative it will be. In this regard, the energy sector provides immense opportunities in terms of improvement of its functioning as well as technologies.

It was acknowledged by establishment of the Strategic Energy Technologies Plan and its implementation. Equally important is availability of the funds which might be used for financing R&D in the energy sector, such as Horizon 2020. A focus on innovation should be reflected in the form of the industrial policy supporting research of technologies which would facilitate energy transition, such as electricity storage or electro-mobility or more effective and cheaper RES technologies.

Regional cooperation

We underline the need for strengthening the regional cooperation in shaping of the EU energy policy. Consultation and cooperation at the regional level are necessary to ensure that national choices regarding energy policy do not

affect stability of neighbouring state's energy systems or are not contrary to the Energy Union objectives. In this context, Energy Union Governance should create a reliable opportunity to enhance regional cooperation in preparation of the country-specified integrated national energy and climate plans.

We acknowledge the importance of connection of the Baltic States with the European continental system and support the efforts aiming at implementing the process in the most cost effective and technically responsible way, taking into account all costs of all the parties involved and the security of the interconnected systems.

Furthermore, we believe that Central and Eastern Europe is a region particularly important for the European energy policy, both in terms of energy transition as well as integration of national markets. In this regard, we consider that the energy cooperation within 'Three Seas Initiative' has been complementary to the EU's efforts, aimed at increasing level of interconnectivity along the North-South corridor, generating welfare and improving security of energy supply in this part of the EU.

CEEP would like to take an active part in this initiative by facilitating the dialogue and mutual understanding of the different stakeholders from the region's energy sector.