Losing an ally or opponent? EU climate & energy policy post Brexit: Polish perspectives [with V4 comments]

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1/14

Market Liberalisation: EU

- The European Union's Third Energy Package is a legislative package for an internal gas and electricity market in the European Union. **Its purpose is to further <u>open up the gas and electricity markets in the European Union</u>**.
- Core elements of the Third Package include **ownership unbundling**, which stipulates the separation of companies' generation and sale operations from their transmission networks, and the establishment of a **National Regulatory Authority** (NRA) for each Member State, and the Agency for the Cooperation of Energy Regulators which provides a forum for NRAs to work together.
- Other elements of market liberalisation cover such institutions as **TPA**. In order to have **<u>effective competition</u>** the operators of transmission networks must allow any electricity or gas supplier non-discriminatory access to the transmission network to supply customers; this is the third party access (TPA) principle. The conditions of access to the networks are regulated by national regulatory authorities.

2/15

Market Liberalisation: UK

- The **first step towards energy liberalisation in the UK was taken in 1986**. It was the privatisation on the state-owned gas monopoly, British Gas.
- In 1997, the **retail in the company was separated from the upstream gas division**, and floated on the London Stock Exchange (establishment of Centrica).
- **Competition was introduced gradually by the new UK energy regulator**: Office of Gas and Electricity Markets (Ofgem). First, big industrial energy users could choose between different gas suppliers. Later it was extended to smaller businesses.
- **In 1998 competitors were allowed to enter the household gas market**. One year later (1999) same happened to the household electricity market.

Market Liberalisation: UK

- One of the UK's priorities while it holded the European Union presidency was **persuading the Continental Europe to follow its lead in liberalisation of the energy market**.
- Competition was introduced to the UK's residential gas and electricity markets in the late 90s.
  - British utilities companies like Centrica, the owner of British Gas, and Scottish Power complained that they have not had the same chance to enter their European rivals' mainland markets because of slow progress on liberalisation there.
- The UK government wanted more European countries to open their wholesale gas markets to ease supply pressures in the UK (because of the reserves of North Sea gas that were running out).

Market Liberalisation: UK

- According to Ofgem:
  - the decision by British Gas to move into the electricity business early in the liberalisation process kick-started the market and encouraged new entrants.
  - in 2005 the Ukhad the most competitive energy market in Europe and that the model of liberalisation also stimulated badly needed investment in power generation and supply infrastructure.
- Malcolm Wicks, UK energy minister (2005):
  - "We've liberalised I think to the benefit of the British consumer. We have to ensure that in other [EU] member states not least France and Germany <u>we move towards a free market</u>. I mean, that is the <u>nature of the common market</u>. It has to happen and we'll use our presidency to push that just as hard as we can."

State Aid in the Energy Sector

1/3

- The European Commission has adopted new rules on public support for projects in the field of environmental protection and energy.
- The guidelines are aimed at supporting Member States in reaching their 2020 climate targets, while addressing the market distortions that may result from subsidies granted to renewable energy sources.
- Furthermore, the guidelines include **new provisions on aid to energy infrastructure and <u>generation capacity to strengthen the internal energy market</u>** and ensure security of supply conditions of access to the networks are regulated by national regulatory authorities.

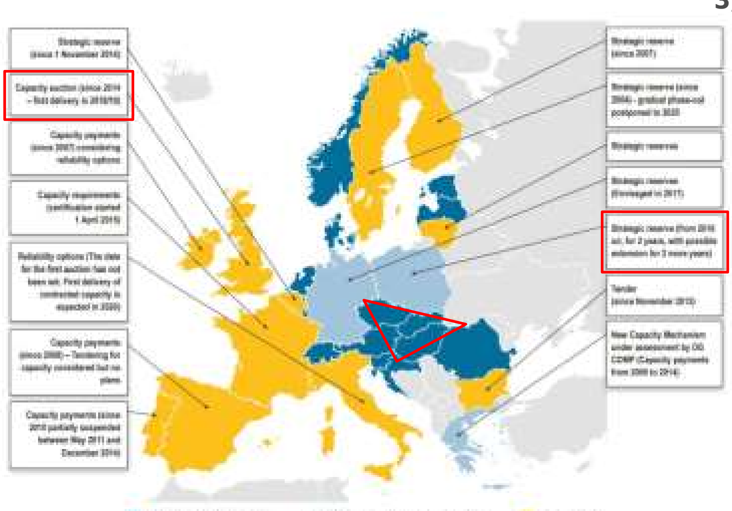
State Aid in the Energy Sector

2/3

- ❑ Key features of the guidelines include:
- ❑ Gradual introduction of market based mechanisms: the gradual introduction of **competitive bidding processes for allocating public support**, while offering Member States flexibility to take account of national circumstances. The guidelines also foresee the gradual **replacement of feed-in tariffs by feed-in premiums, which expose renewable energy sources to market signals**. **Small installations will benefit from a special regime** and can still be supported with feed-in tariffs or equivalent forms of support.
- ❑ Promoting competitiveness of European industry: Charges levied for the funding of renewable energy support make up an increasing proportion of the energy bill for industry. The guidelines allow reducing the burden for a limited number of energy intensive sectors defined for the whole EU. **Member States will also be allowed to reduce the burden on highly energy intensive companies in other sectors**.
- ❑ Supporting cross-border energy infrastructure to further the Single European Energy Market: The new guidelines **include criteria for supporting energy infrastructure, focusing on projects that improve cross-border energy flows** and promote infrastructure in Europe's less developed regions.

State Aid in the Energy Sector

3/3



Capacity remuneration mechanisms in Europe, 2015
source: ACER (2016) in Benalcazar & Nalepka (2017)

UK's CRM as a Benchmark for PL

1/2

- Another newelement is to **permit aid to secure adequate electricity generation when there is a real risk of insufficient electricity generation capacity**. This will allow Member States to introduce so-called "capacity mechanisms", for example to encourage producers to build new generation capacity or prevent them from shutting down existing plants or to reward consumers to reduce electricity consumption in peak hours.
- The European Commission has concluded that the proposed UK Capacity Market is in line with EU state aid rules. The scheme aims to ensure that sufficient electricity supply is available to cover consumption at peak times.
- **The Commission found in particular that the scheme will contribute to ensuring the security of energy supply in the United Kingdom (UK), in line with EU objectives, without distorting competition in the Single Market.** This is the first time that the Commission has assessed a capacity market under the new provisions on capacity markets in the new Environmental and Energy State Aid Guidelines (see IP/14/400).

The UK Capacity Market embraces the principles of technology neutrality and competitive bidding to ensure generation adequacy at the lowest possible cost for consumers, in line with EU state aid rules. – Joaquín Almunia, former Commission Vice-President in charge of competition policy

UK's CRM as a Benchmark for PL

2/2

- Under the **Capacity Market, the Great Britain System Operator will organise annual centrally-managed auctions to procure the level of capacity required to ensure generation adequacy**. Auctions will be open to existing and new generators, demand side response (DSR) operators and storage operators. The UK has also committed to opening the participation to new interconnectors as of 2015.
- The UK has announced its intention to auction a total of 53.3 GW of capacity for the first delivery year in 2018/19. The balance will be auctioned one year ahead of delivery in 2017. The Government will take decisions on the amount of capacity to procure in future auctions, based on advice from the System Operator. The scheme will run for 10 years.
- <u>In return for a steady payment for the duration of the capacity agreement, successful bidders in the auctions will be required to provide capacity at times of stress on the electricity system or face financial penalties</u>. **New generators will be eligible for a 15-year capacity agreement**. Other capacity providers will be eligible for 1-year capacity agreements (except in the case of existing generators requiring significant refurbishment which are eligible for 3-year capacity agreements).

Climate and Energy Policy: UK

- How the UK's climate and energy aims will look like?
- **The UK has been one of the strongest advocates for an ambitious European climate and energy policy**.
- The **Climate Change Act** established a target for the UK to reduce its emissions by at least 80% from 1990 levels by 2050. The first five carbon budgets, leading to 2032, have been set in law. The UK is currently in the second carbon budget period (2013-17). Meeting the fourth carbon budget (2023-27) will require that emissions be reduced by 50% on 1990 levels in 2025, and meeting the fifth (2028-32) will require that emissions be reduced by 57% on 1990 levels in 2030.
- <u>The EU decarbonisation action will lose an ally and a supporter.</u>
- The UK will try to steer the international debate on climate change.
- **On November 17, 2016 the UK ratified the Paris Agreement**.
- According to the Committee on Climate Change (CCC), the UK is currently on track to outperform the Second and Third Carbon Budgets, but off track to meet the Fourth.

11/15

Climate and Energy Policy: PL

- GHG emissions in Poland **decreased strongly by 37% in the period 1990-2002**, but after 2002 emissions grew by 3% until 2015. Poland has a growth target of 14% for the 2005-2020 period under the Effort Sharing Decision (ESD), and it is on track to reach this target because the actual emission increase is lower than expected in the ESD target. **Recent decisions and revised legislation in 2017 in the energy sector will lead to an increased role of coal in energy supply** compared to past plans and a much slower expansion of renewable energies than in recent years, in particular for wind power (Herold, Siemons & Wojtal, 2017).

12/15

V4 Prespective

- The Ministers emphasized the importance of pursuing the implementation of all of the four Riga priorities: strengthening institutions and good governance; economic development and market opportunities; **connectivity, energy efficiency, environment and climate change**; mobility and people-to-people contacts.
- The Ministers agreed that in accordance with the objectives of **the Energy Union** aiming at **enhancing energy security via diversifying sources and routes of supply**, **bolstering regional energy market integration by developing firm reverse-flow** capacity infrastructures with all neighbouring countries remains a V4 priority. **Better interconnectivity**, along with a **diversified energy portfolio** is imperative for securing affordable and sustainable energy supplies, also a precondition for economic growth and prosperity in the long run.
  - In line with this, the Ministers reaffirmed the importance of the timely realization of the North–South Gas Corridor, along with the Southern Gas Corridor. The Ministers further underscored that any new initiative building on the concept of **integrating the Southern Gas Corridor with the Visegrad region**, and **enabling Central and South-Eastern Europe access to Caspian gas**, enhances energy security and market liquidity of the EU as a whole.

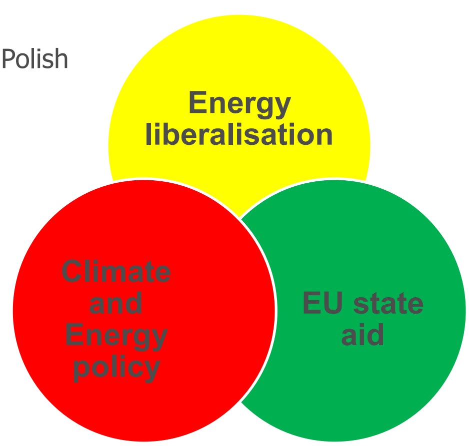
Joint Statement of the Ministers of Foreign Affairs of the Visegrad Group, Budapest, August 31, 2017

13/15

Summary: PL Losing an ally or opponent?

- 3 colours of the rnergy BREXIT from the Polish perspective
- *Further works:*

  Energy BREXIT from V4's perspecitve



14/15

Thank you for your attention

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15/15