

# **DECARBONISATION OF THE ENERGY COMMUNITY THROUGH THE PRISM OF THE ENERGY TRILEMMA**

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## ☐ **Completing the internal market**

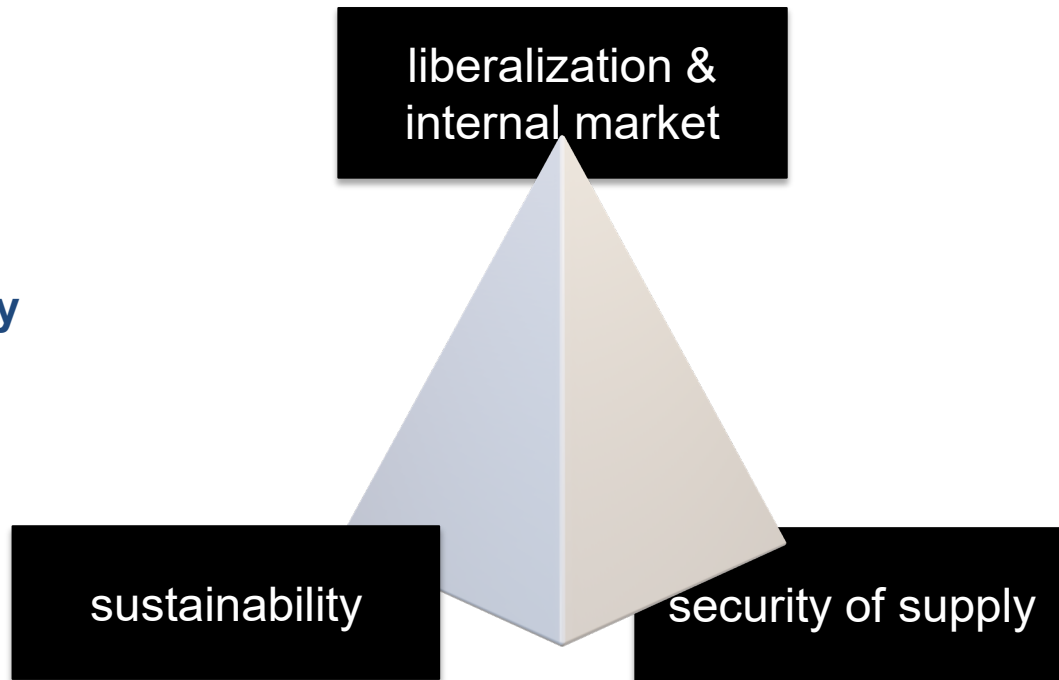
- liberalization
- integration (markets and infrastructure)
- affordability

## ☐ **Safeguarding security of supply**

- internal / external
- the origins of the Energy Union

## ☐ **Combating climate change**

- from environment to climate
- policy tools



# WHERE DOES ENERGY COMMUNITY STAND NOW



*EU commitment for net-zero  
v Decarbonisation  
commitment as political  
message in EnC*

*EU ETS and CBAM in the  
making v carbon tax in ME  
and UA only, and internal  
carbon pricing in EP BiH*



*EU DAM markets coupled and  
IDM coupling in process*

*v one PX, 3 ongoing projects  
and no market coupling yet  
+ price caps, price regulation,  
extensive PSOs*

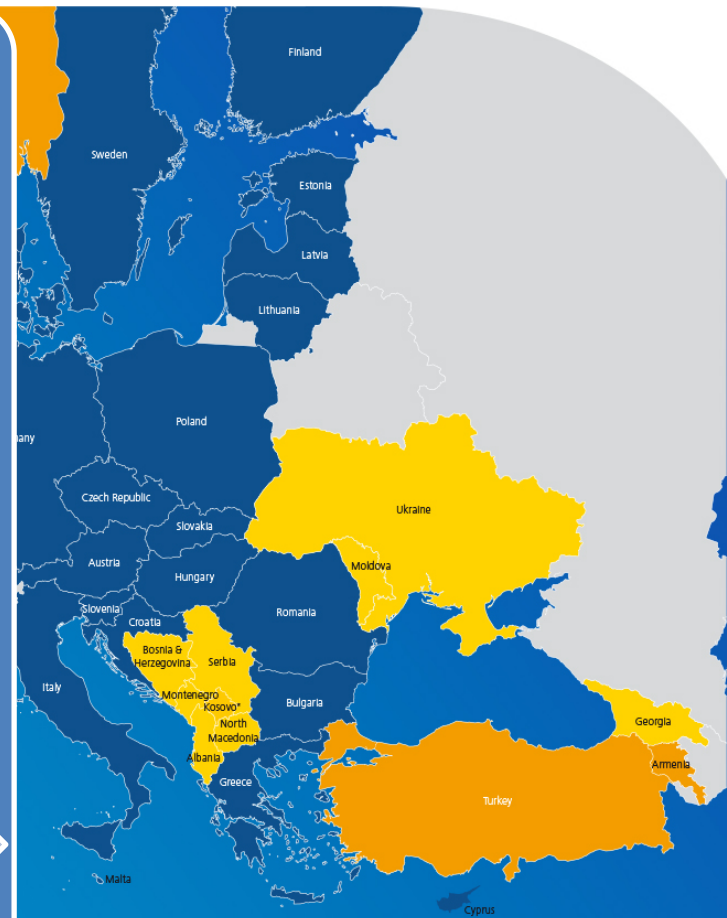


*Net importer as region*

*Better interconnected than  
EU MS but underused  
transmission capacity*

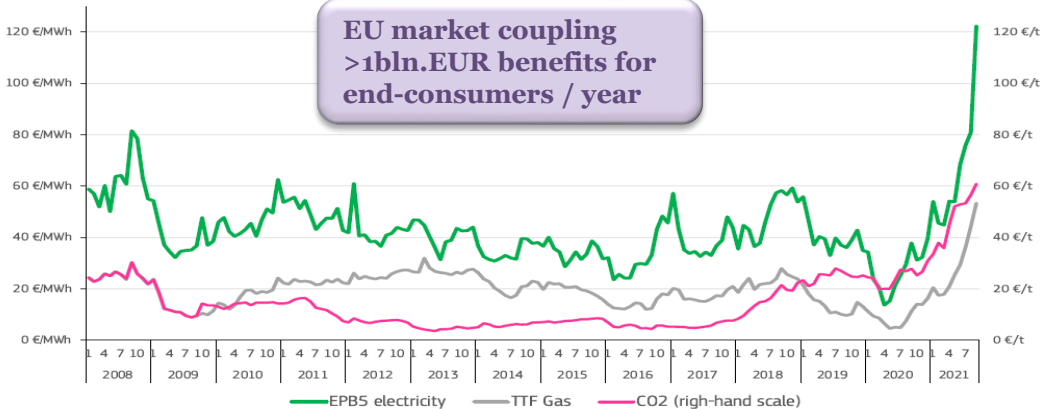
*Strong dependence on coal,  
no gas in some CPs at all  
RES potential not explored*

*Energy Community legislative framework finally updated:  
Fit for 55 in EU v CEP replacing TEP, new RES and EED, Governance Reg...*

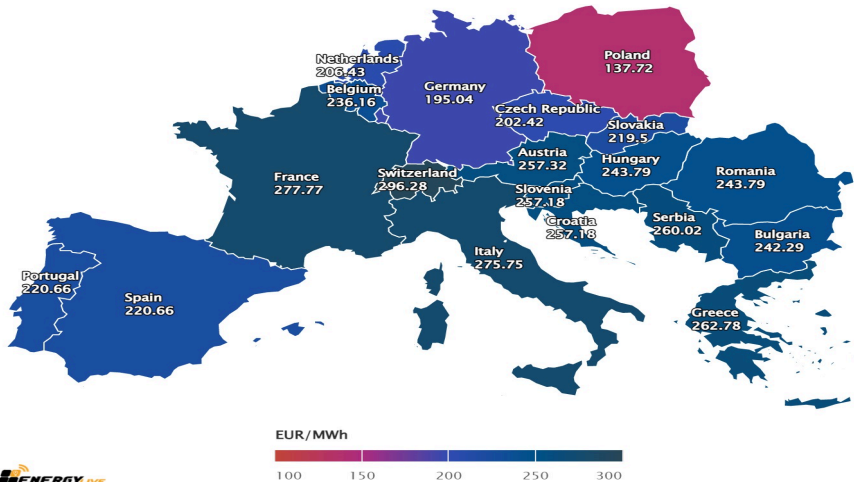




# EU ENERGY MARKETS – LIBERALISATION, INTEGRATION, PRICE SKYROCKETING



Source: Platts, European Power Exchanges, ENER



EU Carbon Permits



Jan-Oct 2021

Gas 16 – 88  
EUR/MWh  
Electricity 230%  
higher due to higher  
gas prices;  
Carbon prices 34-60  
EUR

## Reasons

- Demand for energy went up + reduced supply of gas on the global market;
- Getting coal off the grid + period where wind was lower due to weather;
- Winter was colder than expected => higher demand for heating + decrease in gas reserves in storages;
- Gas for residential heating, but growing demand not met by higher offer;
- Some nuclear under maintenance
- Post-covid recovery of the economy, use of more air conditioners and cooling in summer;
- Countries were prompted to reactivate coal-fired electricity generation => spiked carbon prices
- Countries that rely on gas for power generation and least interconnected had highest price increase





**EU COM toolbox**  
Direct support for VC,  
Tax reductions  
State aid

**ACER assessment**

No obvious market manipulation;  
Increased RES => increased price volatility =>  
encourage market entry & new flexibility solutions;  
Not all market design (based on marginal pricing)  
features are future proof ->  
**new assessment in April 2021!**

**MS examples**

Policy support in Europe			Measures
	Price caps	Specific new financial aid	
France	✓	✓	- Freeze on gas prices, a cap at +4% on the increase of electricity prices. - 5.8mn households to receive a "one-off energy check" of EUR100. - Potential support against gasoline price increase.
Germany	✗	✗	No measures yet, some support could be implemented after the new government is formed.
Spain	✓	✓	- Announcement of a EUR3bn raid on energy companies' profits to support households. - VAT on energy will fall from 21% to 10% until the end of the year, and the special electricity tax will decrease from 5.1% to 0.5%.
Italy	✓	✓	- Spent €1.2bn to mitigate the surge in power prices in Q2 and potential new round. - Intervention limited the increase in electricity prices to +9% vs +20% before.
UK	✓	✗	- Price cap increased by 12% vs +50% rise in energy costs over the last six months. - No new financial support, some specific aid already in place. - Disconnections have been suspended, prepayment customers can get emergency credit.

Source: Euler Hermes, Allianz Research

## MK State of emergency

- Electricity production at bare min (plants out of order, lack of coal)
- Plans to run TEC Negotino (on oil) dormant for 12 y
- Import of coal and electricity, including unannounced withdrawals from EU network
- 65mil state money transferred to ESM
- VAT lowered from 18% to 5%

Causes:

- ESM -> 37 EUR/MWh for HH (cost of generation 5-60 EUR/MWh)
- No price signal for investments
- Lack of sufficient RES
- Not finished gas-related projects

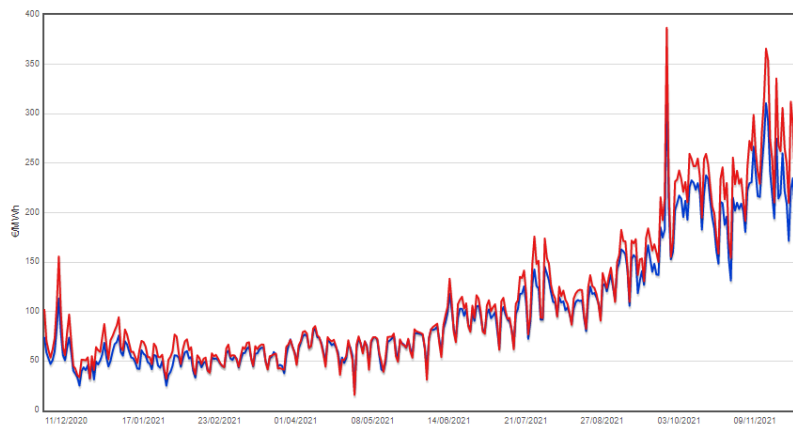
## SR Freezing prices

- Government adopted 2 decisions on freezing prices:
- SoLR at 66.73EUR/MWh
- Prices in contracts between EPS and commercial customers

## AL State of emergency and PSO

- Full supply from incumbent generator for USS  
If not sufficient, through state supplier
- Same for DSO losses
  - Can last up to 3 y

Seepex spot  
60 to 360 EUR/MWh



■ Price Base  
■ Price Peak

# SECURITY OF SUPPLY RISK PREPAREDNESS AND RESOURCE ADEQUACY

Electricity



Gas

•**Risk Preparedness Regulation** - cooperation between Contracting Parties with a view to preventing, preparing for and managing electricity crises; national and regional electricity crisis scenarios; risk-preparedness plan and cooperation with EU Member States

•**Flexibility Study (launched)** – assessing the ability of the power system resources/facilities to adjust the electricity output and consumption to maintain nominal frequency at all times

- What is existing flexibility potential in the CPs?
- What additional flexibility is needed in 2030 and 2040 for three RES integration scenarios (baseline, moderate and high RES integration)?
- What may be a role of integrated systems and markets in providing flexibility?

•**Electricity Interconnection Targets study (Feb 2021)** – high interconnectivity level (CPs satisfy 10% interconnectivity target) but efficient usage and full exploitation of interconnectors is unfortunately still an issue due to low net transfer capacity values at the borders, leading to restricted market activities in the observed regions.

• **Gas Security of supply Regulation**

- Gas markets are not as interconnected as in the EU; some CPs have no gas market at all;
- Lower dependency on gas for producing electricity;
- Unfinished gas projects to be brought to speed if gas is to be used as transition fuel;
- Talks on hydrogen ongoing – UA as an example

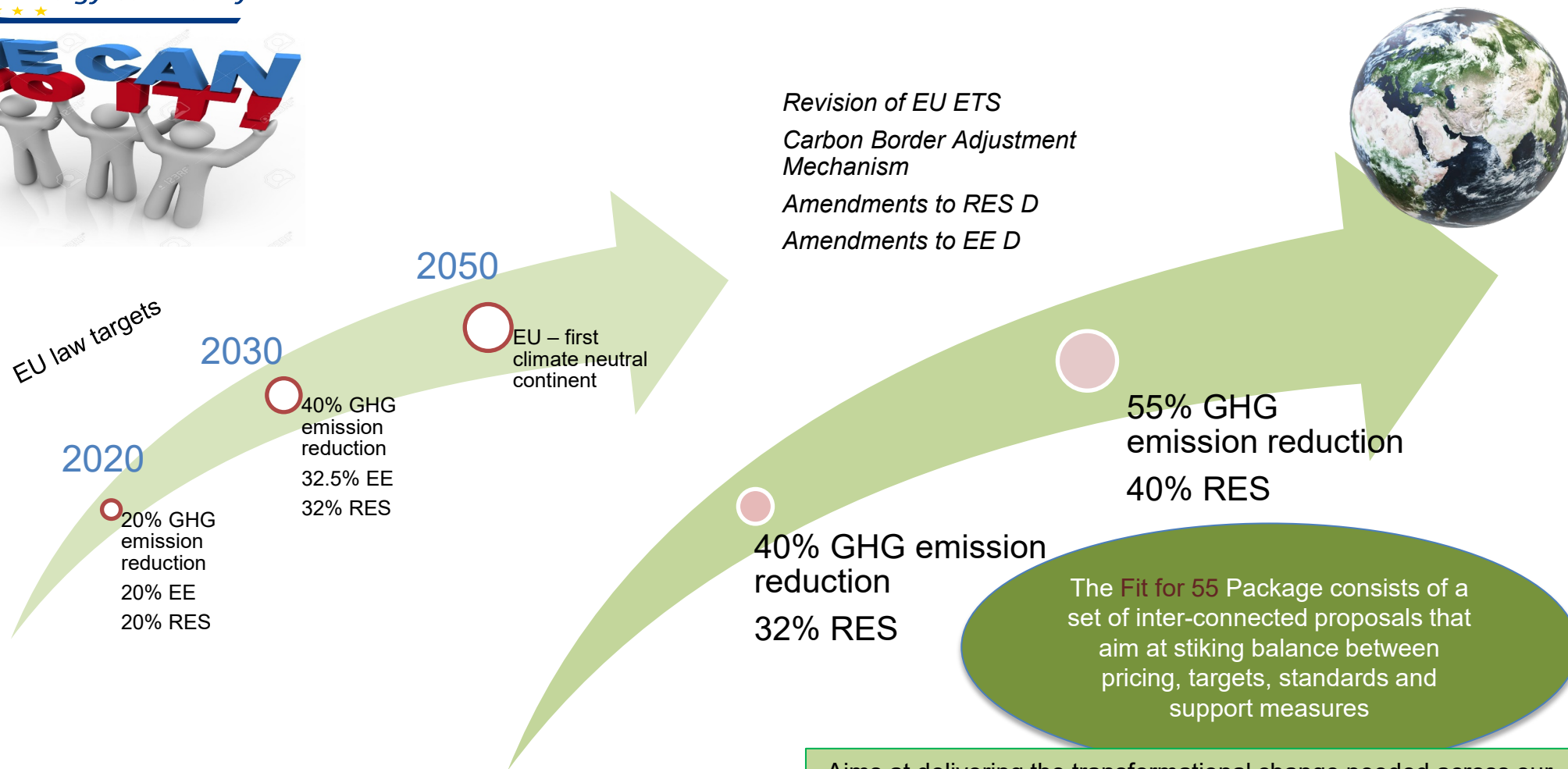


Cybersecurity  
dimension and  
cooperation

Infrastructure  
Regulation



# EU - FROM CURRENT AMBITION TO FIT FOR 55 PROPOSAL





# SUSTAINABILITY IN THE ENERGY COMMUNITY

## Decarbonisation roadmap

*Policy tool to support the path to 2030 energy & climate targets and 2050 climate neutrality*

*EU to step up its support, including financial, to the Contracting Parties*

## Coal phase out

*Plans, announcements v coal subsidies and coal renaissance in crisis  
=> reality check needed*

## Carbon pricing

*EU ETS and CBAM proposal v*

*ME carbon tax, UA carbon tax & EP BiH internal carbon pricing as a start in the EnC  
The Investment and Development Fund of Montenegro has secured EUR 50 million to support green recovery and decarbonisation of the economy.*

## Governance Regulation

*Governance Regulation is now Energy Community acquis  
NECP tools (contain all five dimensions including markets and SoS)*

30 November 2021 – Energy Community Ministerial Council adopted the Decarbonisation Roadmap and upgraded the Energy Community law

# INSTEAD OF CONCLUSIONS

- *Natural gas prices would peak by spring 2022 in a range 110-130 EUR and demand is expected to stay strong till then*
- *Both electricity and gas prices to stabilise next year*
- *BUT more variable RES → more volatile prices*

What to expect?

What to do?

- ✓ Avoid national solutions incompatible with the acquis
- ✓ Cooperate and optimise resources & infrastructure with neighbours
- ✓ Develop organised markets & couple → keeps electricity costs down for consumers and allows replying on neighbours at times of scarcity, thus supporting SoS
- ✓ Step-up EE measures & building renovations → lowers consumption
- ✓ Start carbon pricing, prevent that CBAM kicks in
- ✓ Make investments needs clear, in particular infrastructure and RES
- ✓ Establish investment funds with income from carbon

Overcoming the energy crisis => **opportunity** to engage on a resilient, sustainable and fair recovery path & to establish modern, resilient and clean energy systems

How do we do it?

Regional cooperation / **Energy Community as a platform** to facilitate economic recovery







**THANK YOU**  
**FOR YOUR ATTENTION**

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