Egmont

Energy Transition: A multifaceted Challenge for Europe

2nd Symposium: How to finance the EU energy transition towards a low-carbon economy?

11 June 2014, 09:00 – 13:00, Conseil Central de l'Economie, Av. d'Auderghem, 20

Session 1 : Why is it currently difficult to invest both public and private funds in the European energy transition ?

<u>Speaking notes – Beate Raabe, Eurogas</u>

1. **Financial and economic crisis**
    - Companies have less money to spend, particularly utilities.
    - Will they spend it in Europe?
    - Access to finance more difficult generally and particularly for smaller companies and households whose number as players are increasing.
    - State coffers are empty

2. **Political uncertainty and regulatory risk for energy suppliers**

    - 2030 framework – What will be the focus?
        - Greenhouse gas emissions reductions?
        - Renewables?
        - Energy efficiency?

        - ETS or subsidies?

    - Energy mix – Will there be more surprises like Germany, more stranded investment (also Spain, Italy and other countries)?

    - Shale gas:
        - Will it be allowed?
        - If so, under which conditions?
        - Will these conditions be stable? Applies also to conventional gas.

    - CCS: - Ditto above

    But voter requirements for clean energy on the one hand and cheap energy on the other hand are a challenge for governments.

    - Internal energy market:
        - Price regulation
        - Capacity (remuneration) mechanisms
        - Distortion of competition through renewables support schemes, incl. money and system priority

- Institutional investors, such as funds and insurers are attracted by long-term returns on investment, for example infrastructure projects
- Quote IEA:
  "In the electricity sector, administrative signals or regulated rates of return have become, by far, the most important drivers for investment: the share of investment in competitive parts of electricity markets has fallen from about one-third of the global total ten years ago to around 10% today."

3. Lack of incentives for non-ETS energy users, especially households

What incentives are needed:

- For consumer investment in non-ETS sectors?
- For behaviour change to invite investment by suppliers of energy and equipment, e.g. energy efficiency, demand response?

4. Energy security:

- Most investment requirements are not new because the EU has for a long time strived for a competitive, security and environmentally sustainable energy system
- Diversification of sources and routes, and interconnection are part of that
- If countries, such as Norway and Algeria, and EU producers are expected to deliver more gas to Europe, they need to invest and for that they need the assurance that the gas market will stay attractive
- Not helpful is the Commission's statement in the "European Energy Security Strategy": "There is a significant cost-effective potential for renewable electricity and heating to further reduce natural gas use in a number of sectors by the end of this decade" and the suggestion that Member States notably "front-load" plans for a fuel-switch to indigenous renewable heating. – Mechthild's comment would be welcome.

Conclusion: What's needed?

- Quote IEA: "Consistent and credible policies"
- Price carbon rather than paying subsidies: At least 40% reduction target + ETS reform before 2020
- Remove market distortion (subsidies, price regulation) – reliably because most of the investment will need to come from the private sector
- Do not discourage the use of gas but create a policy framework in which gas, along with all other low-carbon solutions, can compete on a level play. Only an open and fair low-carbon market with a long-term reliable horizon will attract private investment.
- If this is pursued, no compromise is needed between the three pillars of a sustainable energy system that is secure, competitive and clean.