



NÁRODNÍ KONVENT

Energy Union: A Year Later

Summary and recommendations from the National Convention on the
EU round table discussion held on 11 March 2016

Recommendations prepared by the round table expert coordinator – the Czech Chamber of
Commerce.



Introduction

The Energy Union is a project resulting from the integration efforts of the European Commission aimed at uniting the climate, energy market, energy security and research and innovation agendas into a single cohesive strategy. Through the Energy Union, the Commission is striving towards a new holistic approach to energy. However, this approach will require a certain transformation of the existing perception of energy and energy policy.

The Energy Union is made up of five closely related areas, which are focused on (1) energy security, solidarity and trust, (2) a fully integrated European energy market, (3) increasing energy efficiency in order to reduce demand, (4) transition to a low-carbon economy, and (5) research, innovation and competitiveness. The Energy Union also includes the establishment of a dynamic integrated management and monitoring process ("*governance*"), which should ensure that all the implemented measures contribute towards the objectives of the Energy Union.

The Energy Union is firmly enshrined in the objectives adopted at the highest level of the European Council. The content of the Energy Union primarily reflects the objectives of the 2030 Climate and Energy Framework (reduce greenhouse gas emissions by at least 40% compared to 1990, obtain at least 27% of energy from renewable sources, and increase energy efficiency by at least 27%), which was adopted in October 2014. However, we should note that this effort is linked to the current fulfilment of the 2020 objectives (reduce greenhouse gas emissions by at least 20% compared to 1990, obtain at least 20% of energy from renewable sources, and increase energy efficiency by at least 20%), and falls within the wider framework of the objective to reduce greenhouse gas emissions to between 80% and 95% below 1990 levels by 2050. This is important for a proper grasp of the binding nature and enforceability of the whole Energy Union plan – it is based on a number of objectives and measures already accepted by all Member States, and it is also clearly formulated in several conclusions of the European Council, where in numerous cases the Commission merely proposes solutions to fulfil these objectives and tasks in practice, i.e. it is performing a task unanimously assigned to it by the heads of states and governments.

The effort to establish unified positions towards Energy Union issues was the motivation for this round table of the National Convention on the EU, the third consecutive round table concerning energy policy (October 2014 – energy efficiency, February 2015 – energy security), which demonstrates that energy policy, and therefore also the implementation of the Energy Union, is and will remain a government priority.

Round Table Framework

The National Convention on the EU discussion round table, which was attended by about eighty guests and hosted by **Petr Zahradník** from the Czech Chamber of Commerce, was defined by the following discussion questions:

- 1) What are the possibilities for the Czech Republic in terms of contributing to the formation of the Energy Union through the creation of an **internal energy market** in the areas of ensuring a competitive environment, transmission infrastructure, market interconnection, and strengthening the role of consumers?
- 2) What specific steps should be taken as part of **energy decarbonisation** in terms of reform of the EU ETS system and the integration of renewable sources? Is the Czech Republic making use of its potential in this area?
- 3) How can the potential for **energy savings** be effectively used in the Czech Republic, as they remain underutilised and the adopted 2020 objective appears jeopardised?

The discussion was opened on behalf of the Office of the Government of the Czech Republic by **Lucie Poková**, Director of the European Affairs Information Department, who welcomed the participants and emphasised the importance of the Energy Union, and **Štěpán Černý**, Head of the Sector Policies Coordination Unit CRP I., who introduced the context of the debate. He underlined that the beginnings of the Energy Union can be seen in the European Coal and Steel Community, and summarised the round table discussion topics and the main issues that resonate beyond the fulfilment of the determined objectives.

A brief introductory speech was made by the Director of the Czech Chamber of Commerce, **Vladimír Dlouhý**, who stressed the purpose of deepening the integration of all EU policies. He believes that only a common European energy policy can contribute towards ensuring energy security vis-à-vis non-EU countries.

Jiří Horák, a representative of the expert coordinator – the Czech Chamber of Commerce – presented the discussion paper. His conclusions indicate that the Energy Union is the most ambitious of all the coordinated policies and has the potential to prevent negative phenomena, such as overlap of instruments and objectives, and thus to unify all the reporting methodologies. However, the question remains of whether this potential can be utilised in practice. He also pointed out discrepancies between the energy policies of the individual Member States, and stated that each newly adopted strategy represented a potential destabilisation element for the energy sector.

The position of the Ministry of Industry and Trade was presented by **Lenka Kovačovská**, Deputy Minister, Energy Section. She said that only this year would show what has been achieved as part of the Energy Union. The third liberalisation package must be implemented and network codes introduced, and only then can any other changes be prepared and adopted. All Member States must implement directives in the same way. She emphasised

that the development of renewable sources must go hand in hand with the development of networks. In terms of the objectives for energy efficiency and renewable sources, she supports preserving the voluntary scheme.

Another position on the round table questions was presented by the Director of the Department of Energy and Climate Protection, **Pavel Zámyslický**, from the Ministry of the Environment, who summarised the issue of the revision of the EU ETS system. He acknowledged the accession of all major global economies to the COP21 agreement.

Last but not least, **Martin Mikeska** from Hnutí Duha (Rainbow Movement) presented his position, focusing on electricity market reform. He promoted flexibility for customers, the implementation of smart metering, and the development of e-mobility. He said that the Czech Republic should prepare its networks for the further development of renewable sources.

The debate that followed was primarily devoted to reactions to the formulated discussion questions and reactions to the preceding speakers. The following people took part in the discussion: **Ivo Hlaváč**, member of the Board of Directors of ČEZ, a.s.; **Dan Jiránek**, Executive Director of the Union of Towns and Municipalities of the Czech Republic; **Martin Hájek**, Director of the Association for District Heating of the Czech Republic; **Tomáš Veselý**, Head of the Foreign Cooperation Department of ČEPS, a.s.; **Václav Hrabák**, Chairman of the Energy Section and member of the Board of Directors of the Czech Chamber of Commerce; **Petr Holub**, Director of the Chance for Buildings alliance; **Jakub Vít**, Director of the National Centre for Energy Savings; **Jaroslav Ungerman** from the Bohemian-Moravian Confederation of Trade Unions; **Milan Šimoník** from PSG-International; **Pavel Řežábek** from ČEZ a.s., and **Zdeněk Čech** from the Representation of the European Commission in the Czech Republic.

They agreed on the important and stable position of the Czech Republic in relation to the foreign partners who most influence the energy sector in the Czech Republic, i.e. Germany and Austria. Some of the round table participants consider it important to defend national interests if the European solutions fail.

There was also general agreement that many newly adopted legal provisions do not contribute towards stability of the energy sector. It is necessary to focus on implementing existing directives rather than on adopting a large number of new ones.

Emphasis must be placed on the implementation of the third liberalisation package, stability of the regulatory environment in the area of renewable sources, and modernisation of the transmission system and its interconnection with the rest of Europe to ensure energy security.

The round table identified the fulfilment of the energy efficiency objectives as the most crucial issue and weakness in terms of the Czech Republic. It is necessary to coordinate all the existing programmes and strengthen the role of energy efficiency in all sectors. The Government of the Czech Republic must accelerate the performance of all the steps leading to the achievement of the determined objective.

The participants agreed that 2015 had brought about a number of important moments for the implementation of the Energy Union. However, all the indications are that 2016 will be no less important, and as such will require that the Czech Republic adopts a strong position on many related issues.

Recommendations

The key areas forming the basis for establishing suitable framework conditions for the fulfilment of the Energy Union in the Czech Republic are summarised below. These recommendations in particular resulted from the discussion:

1. Sovereignty of the Czech Republic and Relationships with Neighbouring Countries

The Energy Union may be a unifying concept if the European Commission approaches all Member States in the same way, regardless of their positions within the EU or their size. In terms of the fulfilment of obligations and determined objectives, and the implementation of adopted directives into national law, the Czech Republic has made greater progress than other states, including Germany and Austria. The European Commission should not fail in enforcing European rules. It is crucial to strongly defend the interests of the Czech Republic when there are conflicts of opinions with other Member States. The Czech Republic needs stability of the regional energy sector to ensure its energy security. Our state has one great advantage, namely that the electricity transmission system is in the hands of the Government. Our immediate neighbours cannot use the Czech transmission system without any regard for the Czech Republic.

2. Consistency and Discretion in Legislation

A large quantity of newly adopted legislation does not contribute towards stability of the energy sector. The market price of energy or emission allowances immediately responds to the introduction and adoption of new legislation. Market reactions are immediate, and the Czech Republic is concerned about the impact of the continuous adoption of a large quantity of new packages, directives and regulations on market stability and the predictability of the business environment in the energy sector. At present, many EU countries have still not sufficiently implemented the third liberalisation package, and network code implementation is significantly delayed. We should devote time to the implementation of these incomplete areas before creating new regulations. The Czech Republic appreciates the need for regional coordination, as solutions adopted unilaterally at national level have a great impact on neighbouring countries and thereby entire regions.

3. Completion of the Internal Energy Market

The priority in terms of the energy sector is to unify and interconnect electricity markets (day-ahead, intraday and balancing). When adopting further procedures, rules and

requirements for this interconnection, the restrictions imposed by cross-border transmission capacity must be taken into account.

4. Renewable sources

Renewable sources must be developed according to the real conditions in the Czech Republic with respect to technological development, resource efficiency and costs. The development of renewable sources must go hand in hand with the development of networks. We should expand only those renewable sources which have the greatest potential and produce electricity with the lowest costs. Renewable sources should grow on a market basis. At the same time, producers of electricity from renewable sources should also be made responsible for the imbalance where the Czech and Polish transmission systems must currently adapt to the increase in renewable sources in Germany, while Germany is not sufficiently strengthening its own transmission system. In this sense, it is necessary to defend national interests in terms of energy security.

5. EU ETS and Decarbonisation

The revision of the EU ETS Directive and reform of the system should be ambitious. At present there are overlapping policies and the current permit price does not motivate innovation or the implementation of low-carbon technologies. Allowances must continue to be divided into free and auctioned allowances. What is crucial is free allocation to industries threatened by carbon leakage, power engineering, and also the calculation of benchmarks. It is necessary to emphasise the utilisation of useful instruments, which first and foremost include a modernisation fund through which it will be possible to invest in modernisation of the energy sector in the Czech Republic.

6. Energy Efficiency and EPC

The potential for savings and increases in energy efficiency is relatively significant, and the fulfilment of the Czech Republic's targets is jeopardised. Objective coordination within the Coordination Committee attached to the Ministry of Industry and Trade is essential. The selected alternative scheme already has considerable grant and investment support, and accelerated implementation is now needed. Nevertheless, the Czech Republic must maintain the selected alternative scheme and not allow transition to the mandatory scheme. The alternative scheme must be perceived as a priority for achieving energy efficiency, and not only at the level of the Czech Government.

Immense reserves can be identified in the government sector and in the achievement of energy savings. It is necessary to find a solution which will enable the use of EPC (Energy Performance Contracting) in state administration buildings as well. Voluntary agreements also constitute a great potential, and we should find an effective solution to facilitate their adoption and expansion as much as possible. It is also necessary to comprehensively focus on thorough modifications to technology in buildings (modernisation of power sources, distribution systems etc.). This is because energy savings are not only about building insulation, but also the need for corresponding modifications to power sources and distribution systems.

7. Funding and Grant Programmes

The operational programmes to promote energy efficiency have been delayed by two years and the drawing balance is dismal. The administrative burden and barriers still present difficulties for municipalities as well as companies. Both the implementation of the programmes as well as the drawing of funds must be significantly accelerated.

8. Energy Security

Energy security is one of the strategic objectives of the Energy Union. Maximum use of domestic primary energy resources forms the basis for the fulfilment of this demanding objective. For this reason, domestic resources must be exploited in the individual Member States to the maximum possible extent.

Recommendations of the National Convention on the EU:

1. In the area of the Energy Union, defend the interests of the Czech Republic in accordance with the adopted national positions, which will be created through discussions with economic and social partners, and make maximum use of the possibility of coordination of common positions within the V4 in areas where a strong common compromise can be reached.
2. During the creation of national positions and their subsequent promotion, always examine impacts on the stability of the market environment and the predictability of the legal framework for business in the energy sector.
3. At all levels, promote the optimal functioning of the Czech transmission system, for example through an appeal for the establishment of responsibility of producers from renewable sources for imbalances, or for limits on unplanned overflows from neighbouring states.
4. At all levels, insist on the strict implementation of key legislation in all Member States, which should be a necessary prerequisite for the adoption of additional regulations with a similar focus.
5. At all levels, promote the unification and interconnection of electricity markets (day-ahead, intraday and balancing) in Europe.
6. Develop renewable sources according to the real conditions in the Czech Republic with respect to technological development, resource efficiency, cost efficiency, and especially the possibilities of the distribution networks and the transmission system. Maintain technological neutrality when supporting and implementing low-carbon technologies in the Czech Republic.

7. Promote an ambitious reform of the EU ETS system so that it can constitute a real source of price signals for investment in low-carbon resources and technologies. It is crucial to preserve free allocations for industry and power engineering.
8. Strengthen the role of the Coordination Committee for Energy Efficiency, increase the effectiveness of its work, and strengthen its executive component. Enforce its decisions in practice, thereby contributing to the fulfilment of the objectives to which the Czech Republic is committed.
9. Remove barriers to using EPC across all sectors, including the use of EPC in state administration buildings.
10. Contribute towards increasing the delayed drawing under the operational programmes, and actively remove administrative barriers.
11. Use domestic primary energy resources to the maximum possible extent in order to promote energy security as one of the strategic objectives of the Energy Union.

This text does not constitute the minutes of the individual contributions presented in the discussion. Therefore, it does not contain everything that was said and does not express the opinions of all the participants on all the discussed topics. It is a summary of the most important points and the formulation of recommendations on the basis of the discussion, prepared by the Czech Chamber of Commerce.

The National Convention on the European Union is a permanent venue for discussing European issues in the Czech Republic.

The project, coordinated by the Office of the Government of the Czech Republic, brings together representatives of the Government, both chambers of the Parliament of the Czech Republic and the European Parliament, academia, the non-profit sector and social partners, and other interested parties.

More information on the National Convention can be found at www.narodnikonvent.eu and on Twitter: [@KonventEU](https://twitter.com/KonventEU).