European Energy Policy: Competitive Visions

Towards understanding ECE preferences

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Advancing EU Energy Objectives in East Central Europe

Atlantic Council / REKK Workshop

Ocober 4-5, 2012, Budapest, Hungary

EU energy policy priorities

COMPETITIVENESS

- Integrated and diversified internal electricity and gas markets

SUSTAINABILITY

- GHG emission reduction – 20/20/20/ - 2050 decarbonisation
- RES promotion, energy efficiency improvement

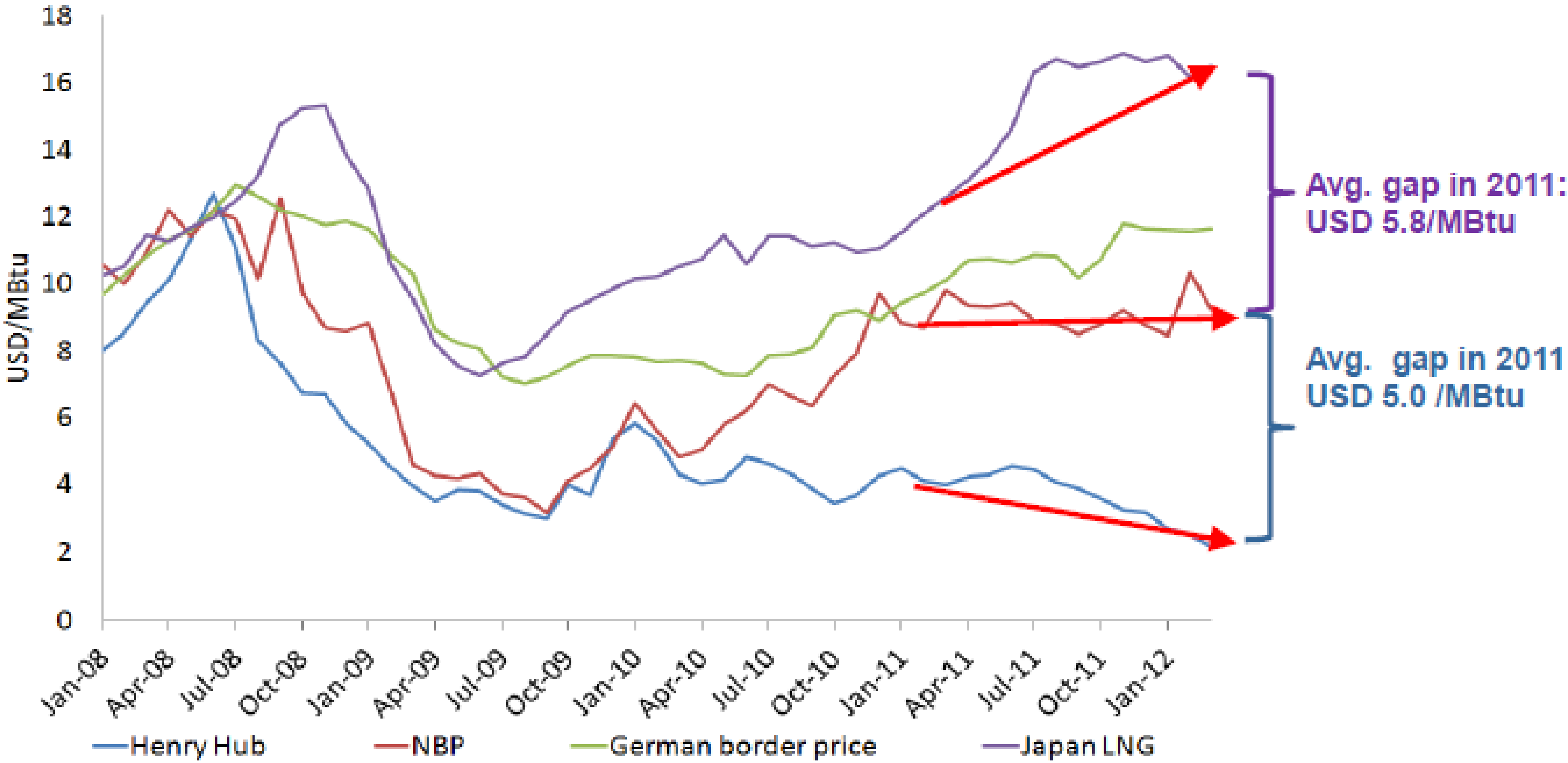
ENERGY SUPPLY SECURITY

- Gas supply diversification, infrastructure development
- RES and energy efficiency

No. 1

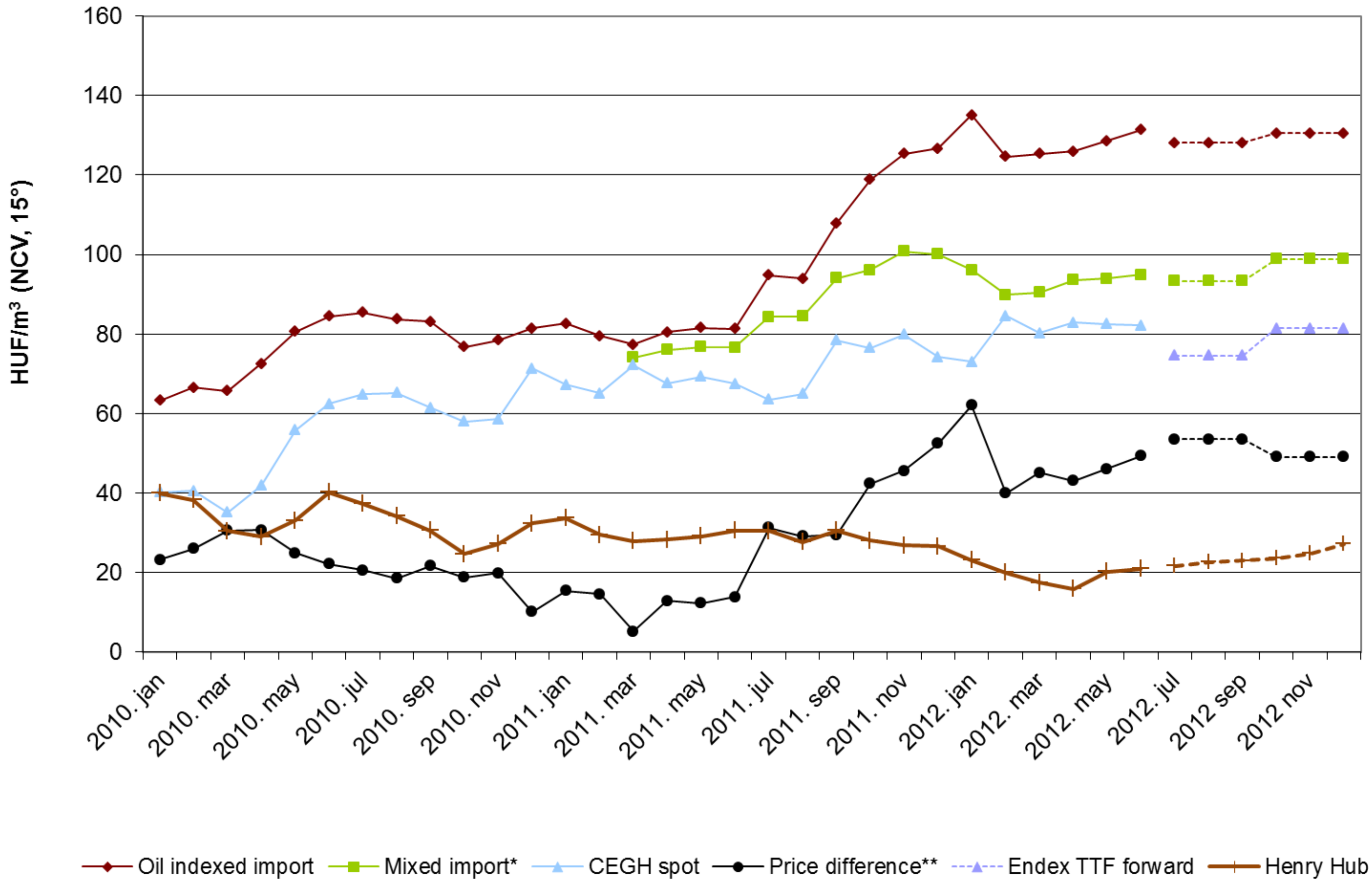
EU-wide agreement on the need to create integrated and competitive internal gas and electricity markets

The cost of an inefficient EU gas market -1



Source: ICE, EIA, IEA, German Customs, Japanese Customs, McCloskey

The cost of an inefficient EU gas market - 2

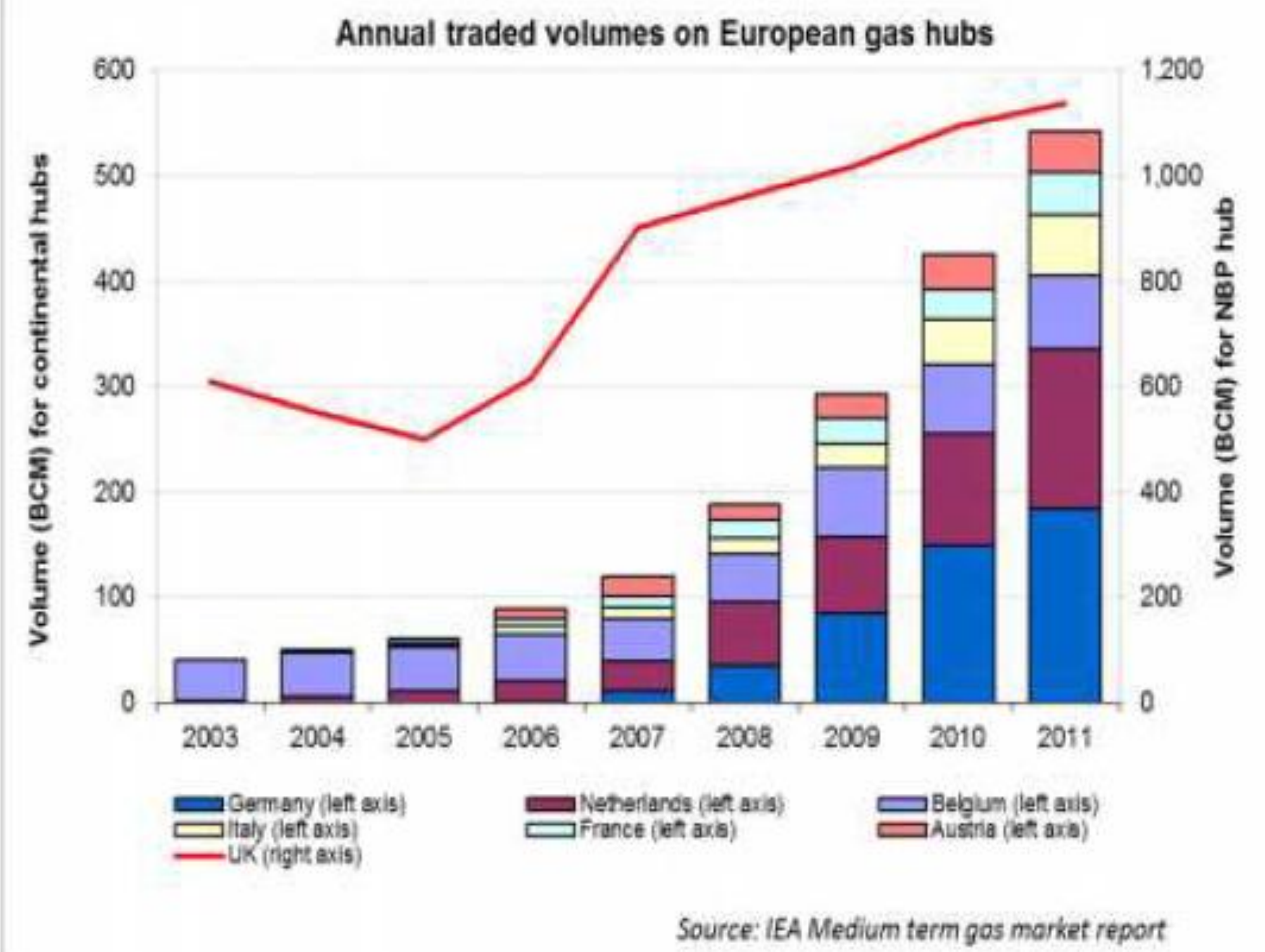


Oil indexed prices are 6 times Henry Hub!

ECE consumers pay 30% over West European exchange prices

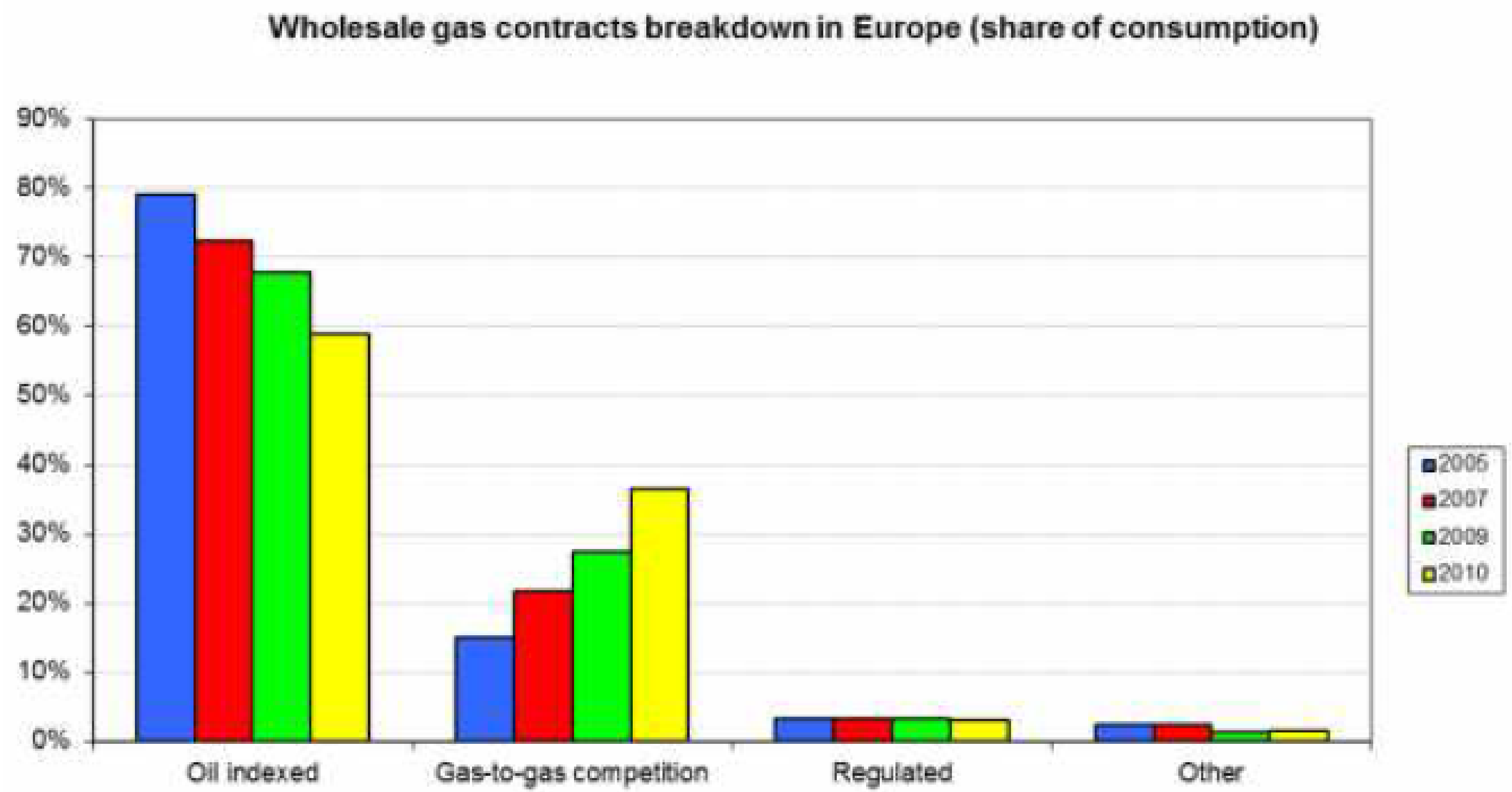
Source: REKK analysis

Fast development of European gas hubs



Continuous increase in liquidity

Spread of spot pricing



Source: International Gas Union

Electricity market integration by 2014 – mission almost completed

Status of market coupling

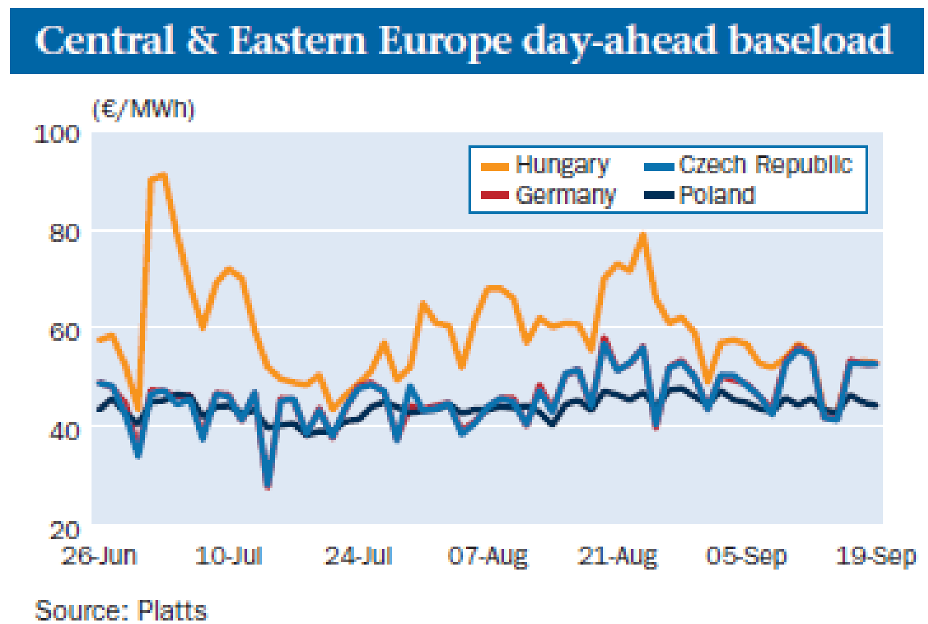
REGIONAL IMPLICIT AUCTIONS		
	CWE	Price coupling
	Austria	1 AT PX price coupled to GE (no congestion)
	GB	1 GB PX price coupled to NL via BritNed only
	Nordic + Estonia	Price coupling, also Poland via Swepol
	ITVC	Volume coupling CWE - Nordic
	Italy - Slovenia	Price coupling
	Mibel	Price coupling
	Czech - Slovak	Price coupling

Source: Day Ahead MC Implementation Roadmap, ENTSO-E – EuroPEX presentation at the Florence Forum (23 May 2011)

From September 11, 2012: Czech – Slovak – Hungarian market coupling

Czech – Slovak – Hungarian market coupling

2012 szeptember 11



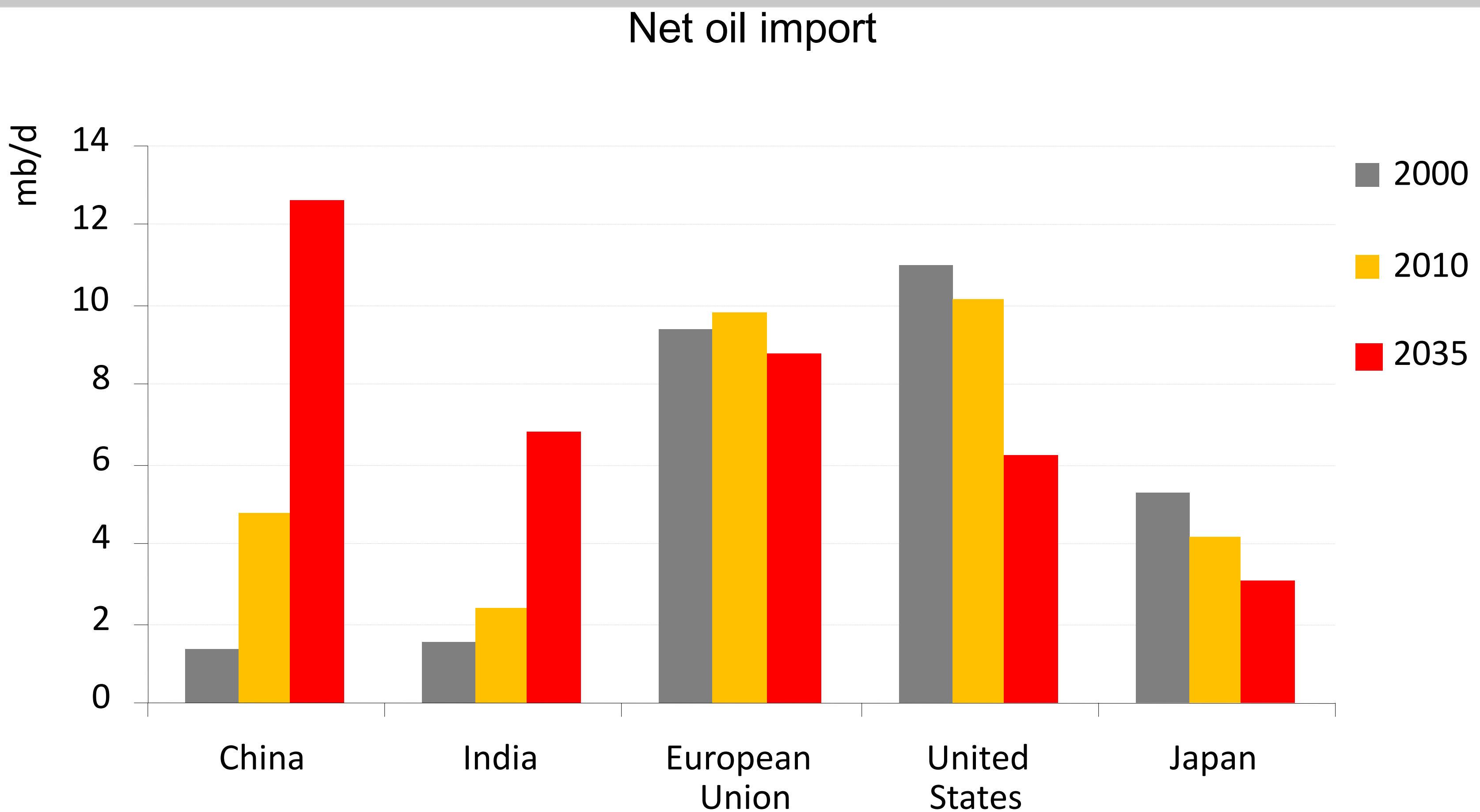
First result: re-integration of regional wholesale electricity prices

No. 2

EU-wide agreement on the need to diversify oil and gas supplies to offset increasing import dependence

Europe becomes no.1 oil importer by 2015

REKK Regionális Energiagazdasági Kutatóközpont

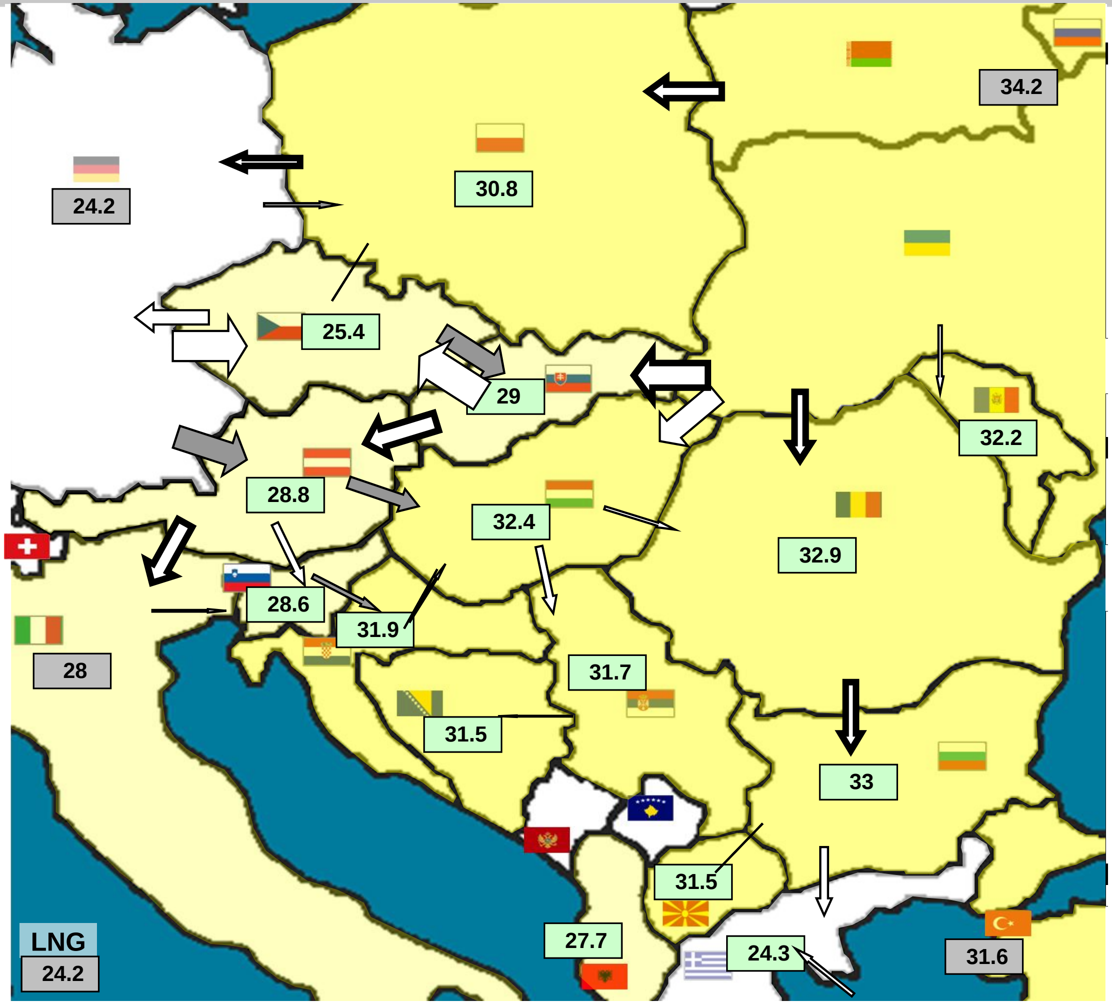


USA: growing domestic production and increasing energy efficiency

USA/Canada: major oil and gas reserves and production

Source: IEA WEO 2011

Lack of interconnectivity conserves high gas prices in the region (2011)



Outside market prices: grey box (€/MWh)

Marginal prices: green box (€/MWh)

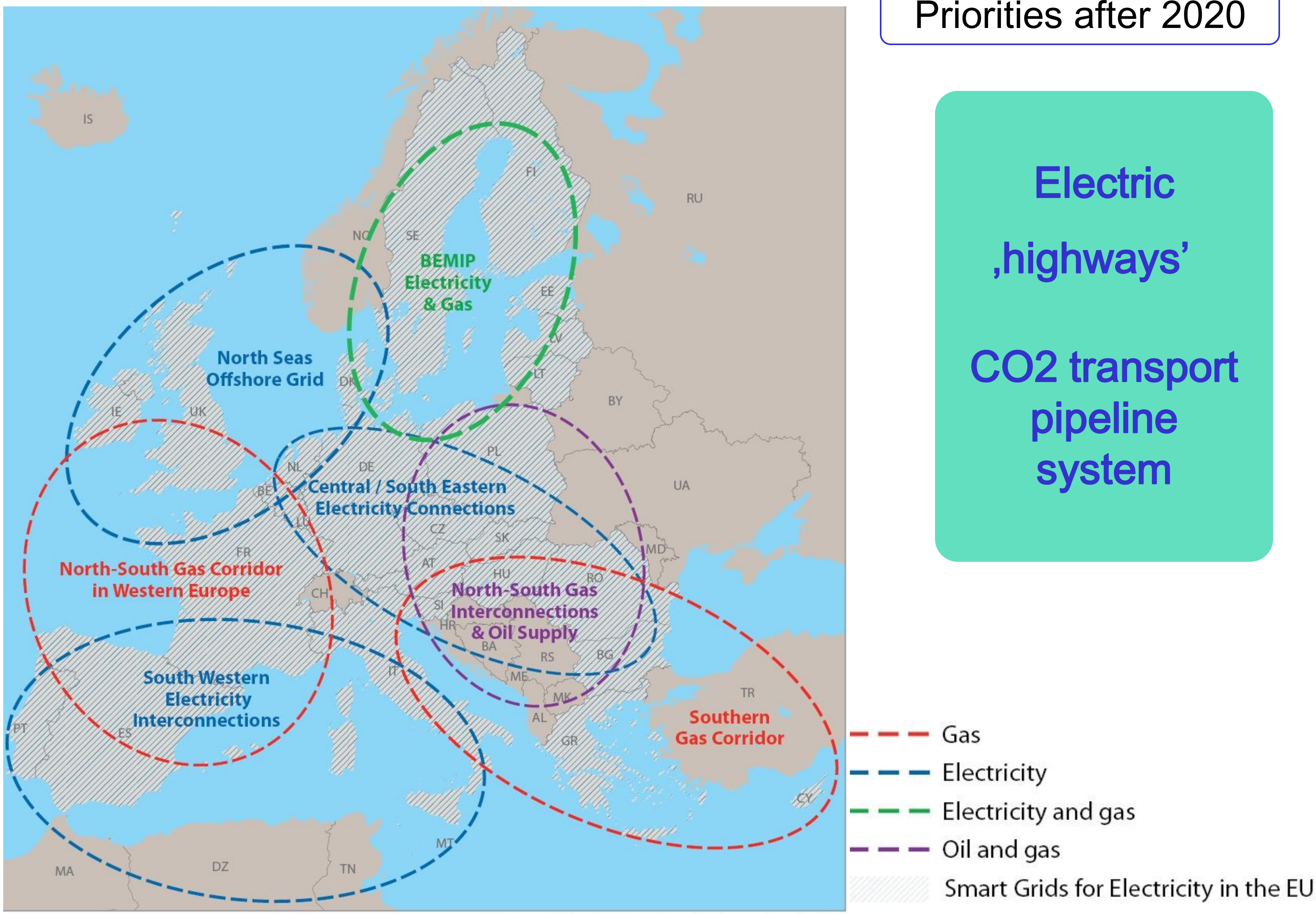
Arrows: flows

- Bold: 5 times larger
- Grey: congested

Modelling result: ~ € 5 Billion annual gas purchase excess cost for the Region

Key policy measure: New EU energy infrastructure package

Priorities after 2020



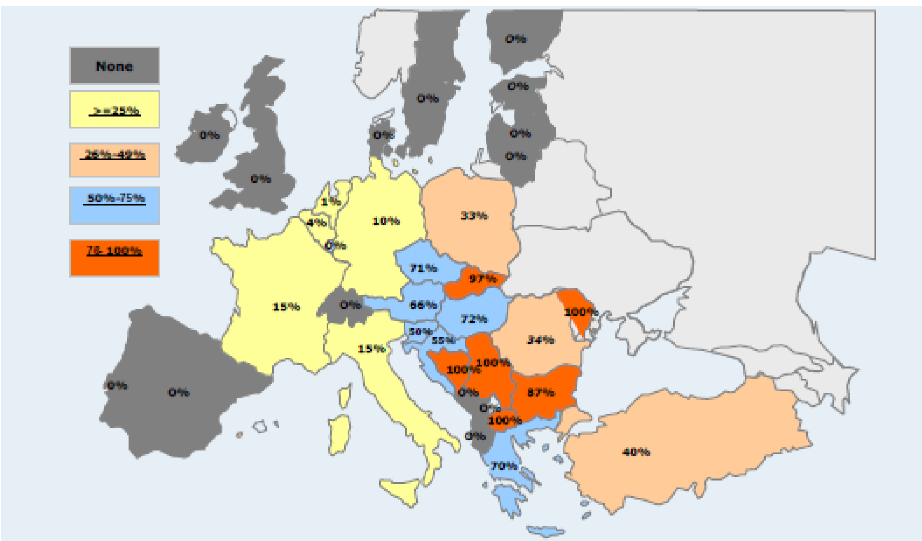
Electric ‚highways'

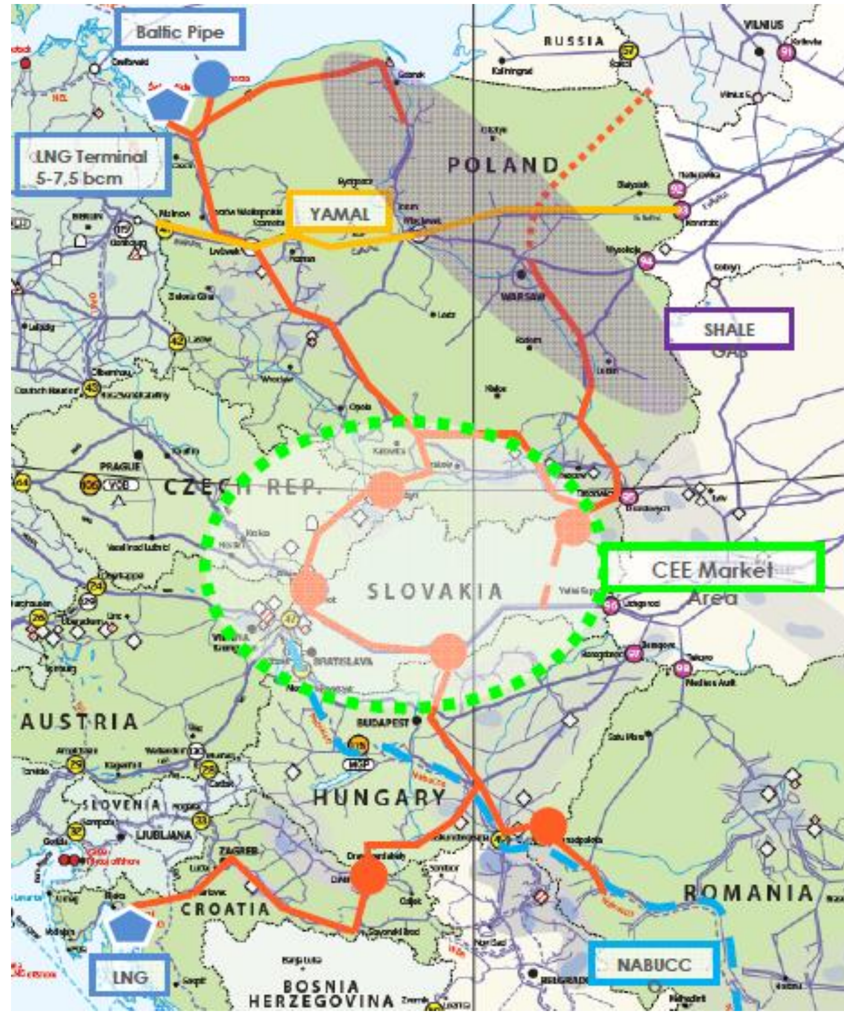
CO_2 transport pipeline system

More integrated gas market: no.1 regional energy policy priority for the ECE region

REKK REGIONÁLIS ENERGIAGAZDASÁGI KUTATÓKÖZPONT

2009 January





No. 3

EU divided on aggressive (80-90%) decarbonisation objectives and the related green growth vision

Pillars of a decarbonisation policy

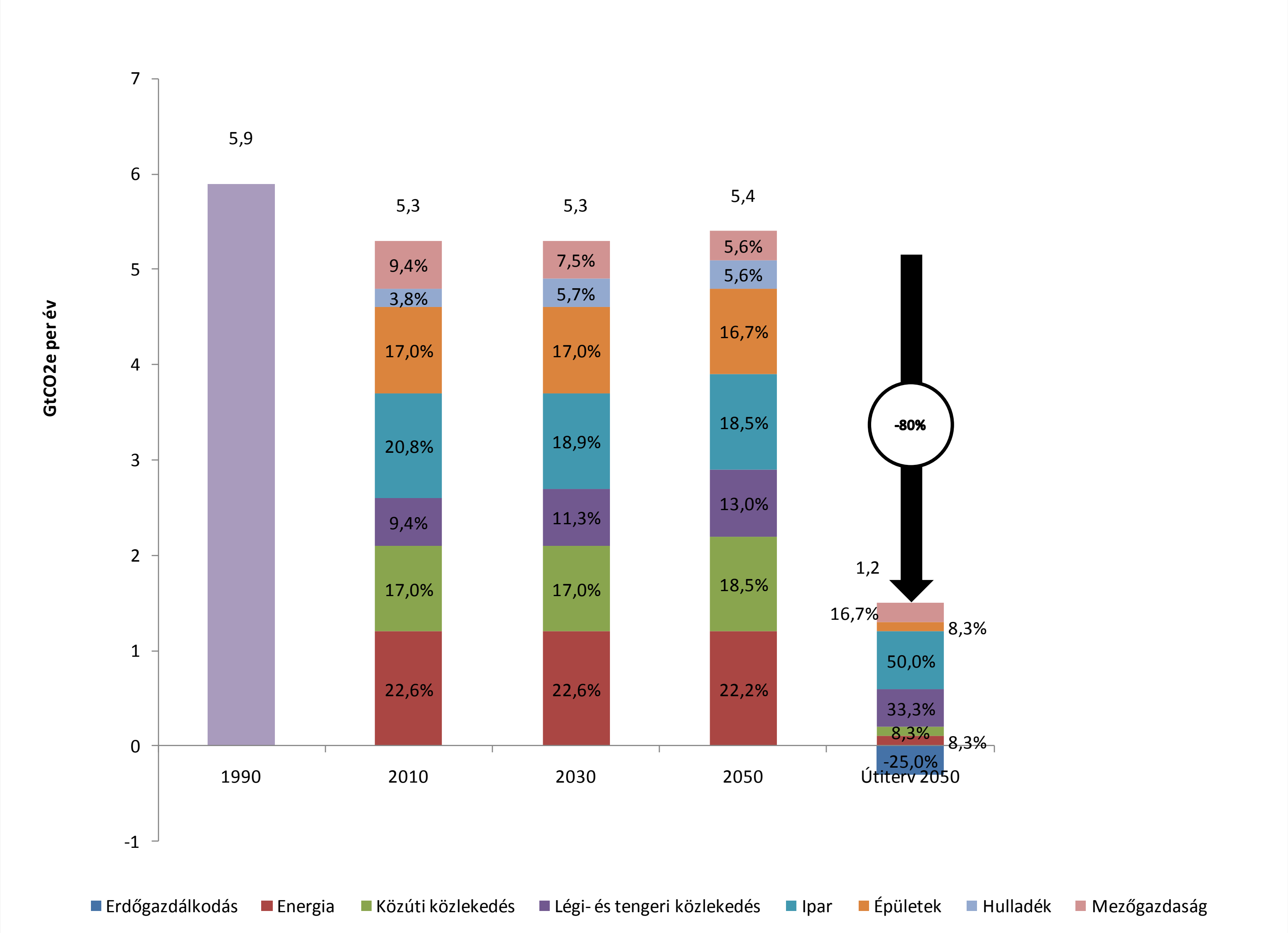
REKK Regionális Energiagazdasági Kutatóközpont

- RES promotion
- Energy Efficiency
- Nuclear energy
- Carbon Capture and Storage - ???

WE preferences

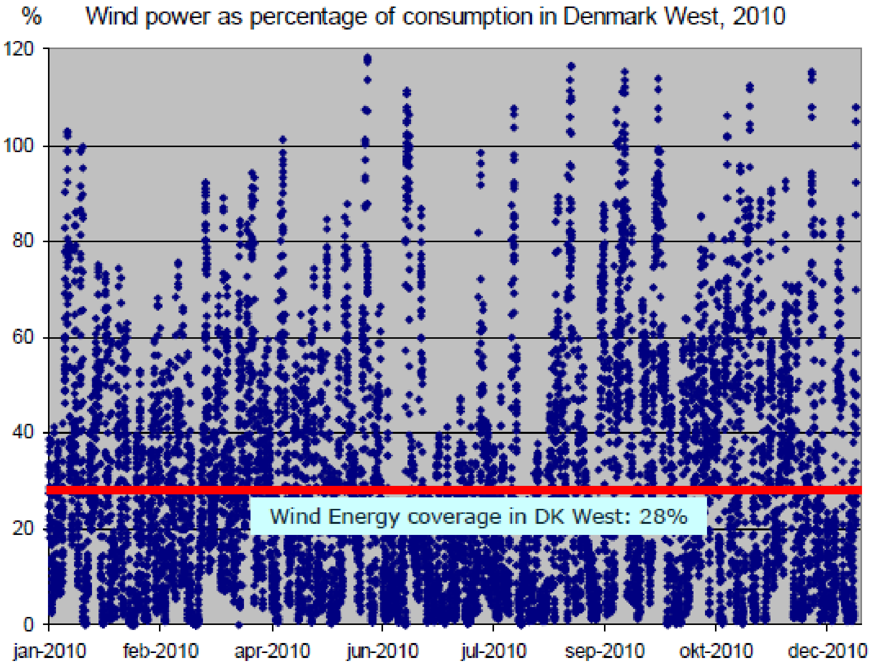
ECE preferences

Decarbonisation: a real challenge

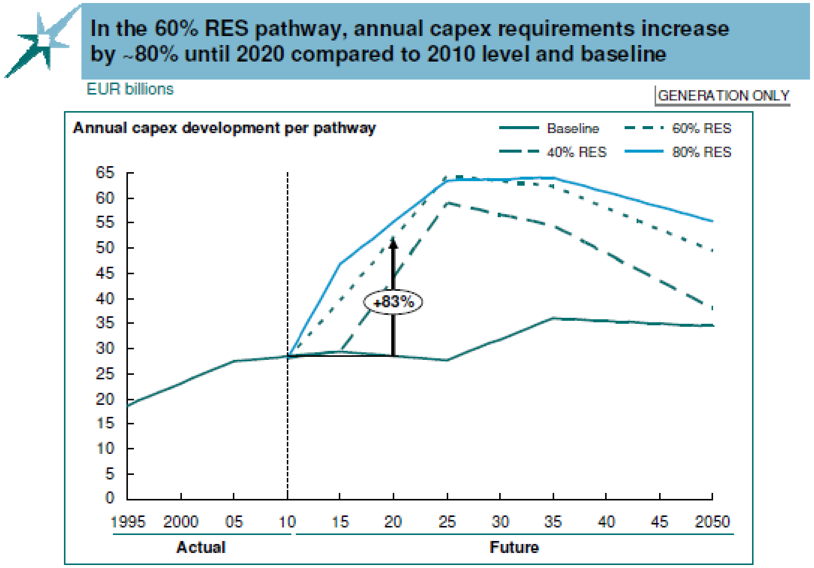


Source: EC Roadmap 2050

Major issues



Grid integration of RES



Nuke: a dream that failed?

CAPEX need to replace the present energy infrastructure

ECE dilemmas with regard to further decarbonisation

- Impact on EU competitiveness: carbon leakage or green growth?
- RES technology considered by ECE as technology import, no added value to local economic development
- Massive CAPEX requirement in times of economic crisis
- Threats to electricity market competition: support (RES, nuke) and capacity payment schemes
- No further political will for price subsidies / FIT
- Coal mining (Poland, Czech Republic)
- Electricity grid integration conflicts
- Energy efficiency seems more cost effective

ECE attitude: keeping the 2020 RES targets but no move beyond

A few conclusions

- Truly common objectives: internal market, supply security and related infrastructure policy, energy efficiency policy

- RES: discussion needed on more market based policies, promotion of smart solutions and flexibility services

- Saving the the Emission Trading Scheme is a must for EU decarbon policy!

THANK YOU FOR YOUR ATTENTION!

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