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Energy policy in Europe and a possible path to an economically sustainable future

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Closing Ceremony: Zagreb, 2nd July 2013

Agenda

- Current challenges in Croatia
- Economic challenges in EU energy policy
- Energy policy as part of economic policy
- Outlook and conclusions

Economic and energy market development

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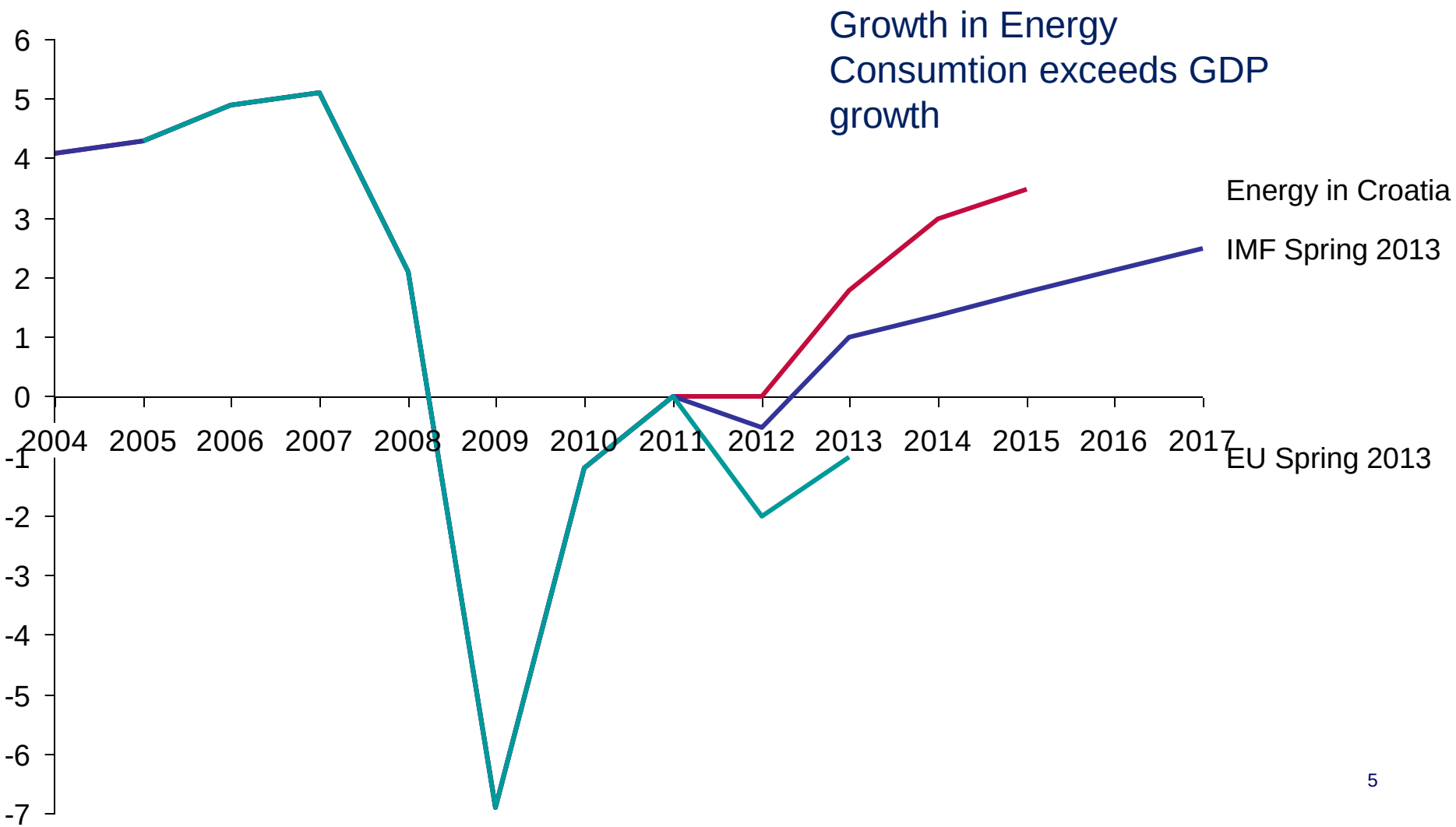
- Eurozone forecasts: positive GDP growth in 2014, but always below 2 per cent until 2018
- Global commodity prices have been influenced by important (unforeseen) developments
- Shale gas revolution
  - US becomes importer
  - Cheap coal, cheaper gas
  - Energy price gap between US and Europe increasing
- Crisis lowered demand – also downward preasure on prices

GDP growth forecasts for Croatia



Environment for investments difficult…

- While lower prices benefit consumers, big investements all over Europe have been put on hold or postponed
- Many energy companies/utilities have issued profit warnings
- In Croatia: increase in import dependency and necessary infrastructure updates call for investments
- Need to attract foreign investment since state budgets are tight

Consumers, Prices and the *Energiewende*

- Many countries discussing wide ranging market reform
  - Capacity Markets
  - Renewables
- Worries about **sustainability, SoS**, **rising prices**, future of the **EU ETS**
  - Might change European energy landscape significantly
- As integration continues this will have increasing impact on Croatia: investments, costs for renewables, consumer prices, SoS

New legal framework 2012/2013

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- Act on Regulation of Energy Activities
  - Sets out duties/organisation/budget of regulator
  - Framed in general terms which helps to avoid conflicts with other (future) pieces of legislation
    - Austrian experience: sometimes challenging because it creates legal uncertainty for regulator and other parties
- Energy Act, Electricity Act, Natural Gas Market Act
  - Cover a huge variety of topics, such as licenses, energy as public service, pricing systems and the power to issues statutory instruments
  - Like in most members states these powers are very diversified

Dependencies between sub-laws for Energy Act

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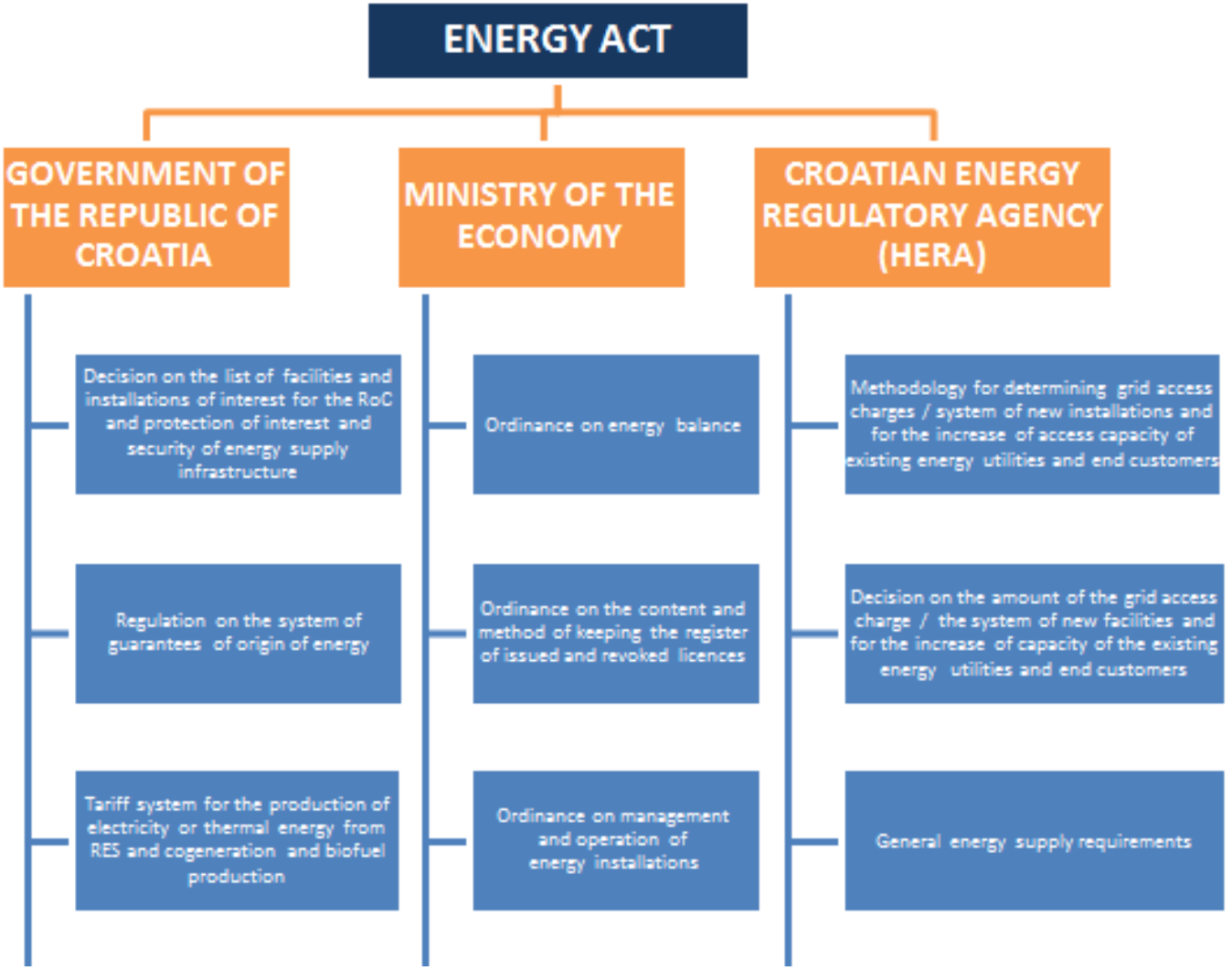

Economic challenges in EU energy policy

Storyline

- Reduce CO2 Emissions by 80%
- Almost unlimited renewable ressources in electricity

→shift energy consumption to electricity

→Energy efficiency where possible

→Successful „European Model“ will serve as a blueprint for other economies (BRIC, US,…)

- Scenarios involve major reduction in total energy consumption
- But the cost element has not been fully taken into account

Case Study: German discussion

- The energy revolution will add another 60 €/MWh to the electricity prices
- When taking into account a high CO2 price of 70 €/t, more or less similar power prices in all strategies (Boston Consulting)
- Power prices might increase by another 25% for the industry

Competitiveness

- Availability of financial ressources is not the only limiting factor
- Competitiveness of European industry might be compromised

Energy Policy - A Part of Economic Policy

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- How to guarantee efficient policy?
  - Industrial Impact Assessment:
    - What are the ramifications of climate and energy policy
  - European solutions first:
    - They typically provide more efficient investment opportunities
  - Efficient Competition:
    - Market integration
    - Fostering local competition by improving market structure, implementing effective competition law and adequate monitoring
    -

Conclusions

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- European model needs optimisation
  - Issue of competitiveness must not be subject to subsidiarity (lessons learned from financial crisis)
  - Multitargeted policy leads to inefficiencies (renewables, CO2, efficiency,…) and volatility
  - Fostering competition is a necessary condition for an efficient energy policy – it provides efficiency gains which at least partially make up for additional cost of climate policy

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