PKEE
Polski Komitet Energii Elektrycznej
Polish Electricity Association

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Position of the Polish Electricity Association on the European Climate Law proposal

Members of the Polish Electricity Association (PKEE) are aware of climate change challenges and aim at a further sustainable transformation which will at the same time ensure energy security. The Polish energy sector is already committed to contribute to the EU climate and energy objectives through ambitious plans to reduce its GHG emissions, even though this planned shift will require significant investment in the mid- and long-term perspective. For Poland, achieving climate neutrality by 2050 requires significant investment outlays, estimated to reach EUR 179-206 billion (CAKE, KOBiZE[1]) in the generation sector. Therefore, it is necessary to include in the European Climate Law[2] a compensation mechanism for low-income Member States to proportionally compensate for the additional carbon costs resulting from the new climate targets. Otherwise, energy companies will channel their financial resources to cover their current operating costs, instead of investing them in line with the climate objectives.

The climate neutrality objective needs to be accompanied by coherent support policy instruments

Since every Member State has its own energy policy and a different starting point, the Commission should avoid a 'one size fits all' approach. According to recent projections[1], the 50% target will result in an increase of the price of the allowances to 34 EUR/tonne and 52 EUR/tonne by 2025 and 2030 respectively. If, however, the reduction target is raised to 55%, the price of the allowances will increase to 41 EUR/tonne and 76 EUR/tonne. From the point of view of the PKEE Members' investment portfolio, the current EU ETS scheme is robust enough to ensure economic incentives for the transition to low-carbon power generation. The PKEE emphasises that the transition may be more difficult for companies whose OPEX is closely dependent on carbon prices, because if carbon prices are high, their own financial resources for new low-emission investment will become severely depleted, resulting in a slower transition pace. Higher carbon prices also increase a company's overall economic risk and create additional obstacles in obtaining financing from the financial market.

Therefore, the European Climate Law proposal should also tackle the financial dimension of the transition. The European Climate Law should directly stipulate that the compensatory measures ought to be changed proportionally to the additional costs brought about by the new 2030 reduction targets.

The PKEE recommends reassessing, along with the new 2030 targets, the potential of the Modernisation Fund which should be increased five-fold to compensate for the additional carbon cost in the scenario that entails a 55% emissions reduction by 2030. In addition, financial support should also be introduced by doubling the "solidarity pool" as well as increasing the Just Transition Fund[3] up to EUR 20 billion. It is of crucial importance to ensure that the European Climate

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[1] CAKE, Scenarios of low-emission energy sector for Poland and the EU until 2050 2019, available at: http://climatecake.pl/wp-content/uploads/2019/11/CAKE_energy-model_EU_low_emission_scenarios_paper__final.pdf
[2] Proposal for a regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law), COM(2020)final
[3] For more details, please refer to PKEE position on JTF (https://www.pkee.pl/en/position-paper-of-the-polish-electricity-association-on-the-regulation-establishing-the-just-transition-fund/)

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Law implements clear and efficient mechanisms aimed at mitigating the risks stemming from the increased level of ambitions.

Revision of the 2030 targets should be accompanied by a country-specific Impact Assessment

According to Article 2 of the European Climate Law proposal, the Commission will "explore options for a new 2030 target of 50 to 55% emission reductions compared to 1990" by September 2020. Current climate and energy targets have been recently agreed under, among others, the "Clean Energy for All Europeans" package and the revision of EU ETS directive. Ensuring a sufficient level of business certainty requires refraining from amending this framework at such short notice and without a sufficient impact assessment of the expected costs for individual Member States. Additionally, ways of adapting the existing financial support to the possibly increased 2030 targets should be explored. Moreover, the Impact Assessment should also look into how these new targets may impact the prices of CO2 allowances and electricity prices, especially in the Member States that still have a higher share of carbon-dependent generation, as well as considering the aftermath of the COVID-19 epidemic.

The PKEE welcomes the Commission's announcement of its intent to conduct a thorough Impact Assessment for the proposed 2030 climate targets. All Member States should be invited to provide the necessary data in order to determine the best level of ambition and the pace of transition for each Member State. Given the above, the PKEE is concerned that the impact assessment of the current 2030 targets and "exploring options for a new 2030 target of 50 to 55% emission reductions" may be very challenging and that it is unlikely to be finished by September 2020, as it needs to explore their economy-wide impact, including the economic effect of the COVID-19 epidemic. The PKEE is of the opinion that any assessment should relate to the EU target of climate neutrality in order to allow the Member States to adapt the pace of their transition to their regional conditions and to undertake the most cost-effective measures. Finally, it should not be forgotten that the European Union's emission reduction targets are essential to the EU policy of fighting climate change and therefore cannot be the subject of delegated acts. Thus, any EU climate targets should be settled with the active participation of the Member States.

COVID-19 outbreak

The impact of the COVID-19 crisis on the European Climate Law should be assessed and the decision-making timeline adjusted. Furthermore, the Commission's modelling should take into account the possible impact of COVID-19 on the ability to meet the 2030 targets. In order to do that, the Impact Assessment should be postponed until the impact of COVID-19 is fully comprehended. Even now, the supply chain of green technologies has largely been disrupted. The next COP26 in Glasgow has already been postponed and there is no good reason to continue insisting on a very strict timeline regarding the adoption of the Impact Assessment and the European Climate Law Regulation.

The COVID-19 epidemic changes the investment outlook and introduces a lot of uncertainty across Europe, also with regard to the development of RES. We therefore call on policymakers to ensure that the right investment framework is created to enable the transition towards a realistic 2030 target that takes into account the latest developments in Europe and beyond.

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