CEZ GROUP

*May 2020*

# TOWARDS DECARBONISED ENERGY SYSTEM: CEZ GROUP'S POSITION PAPER ON FUTURE SECTOR INTEGRATION

*The CEZ Group appreciates the opportunity to express its views on the future sector integration. Based on the EC questions the CEZ Group's position paper strives to outline the priorities and issues which should be tackled in the strategy.*

## MARKET SIGNALS SHOULD BE A DRIVING FORCE BEHIND THE SECTOR INTEGRATION.

Better integration of respective sectors could help further decarbonise the energy system while providing correct price signals. Hydrogen and energy storage may help integrate renewables by storing or consuming excess electricity in times of low or negative electricity market price. Such market signals must be based on a stable and predictable regulatory framework, with the adopted Clean Energy Package as a starting point.

We are not in favour of specific operational support for hydrogen production or power-to-gas facilities. Support should always be linked to. e.g. high-efficiency of a given solution. Regarding CCS, any future measures on CCS should be reassessed in the 2050 carbon neutrality perspective as resources spent can prove to be inefficient in the context of the initiated coal phase-out in the majority of Member States. Moreover, the roll out of the CCS has not proved to be commercially viable/has not happened at all even if the legislation has enabled CCS roll out within the Member States.

A quantified hydrogen share in energy consumption / industrial use should not be a goal as such. We rather see hydrogen and decarbonised gases as enablers of decarbonisation in certain industrial sectors. To this aim, we believe the strategy shall ensure that there is an enabling framework facilitating hydrogen production and use. Support for research & development is from our point of view a sufficient driver for an uptake of new innovative and ready-to-use technologies.

No technology should be subject to exemptions from network charges or other levies. This would only shift the burden from one entity to another and is not aligned with the principle of equal-level playing field for all promising technologies. We see power-to-gas technologies as very similar to electricity generation / gas extraction, they should therefore be subject to all unbundling requirements and owned by entities different from TSOs or DSOs.

## SMART SECTOR INTEGRATION SHOULD BE LINKED TO ELECTRIFICATION.

As highlighted by several studies, electrification is the cheapest way of achieving climate neutrality. In contrary to this, electricity is currently the fuel most heavily burdened by taxes

and levies. The costs unrelated to the energy supply (e.g. energy policy-costs including support for RES, social policy-costs, etc.) are unfairly shared and, at present, born basically by electricity consumers alone. As a result, the efforts to electrify the energy consumption and deploy more renewables conflict each other – the higher the share of renewables causes higher electricity bills which, in response, decrease the incentive to switch to electricity. We believe RES development must be further supported, but related costs must be fairly borne by all fuels, not only by electricity. This unfair burden is from our point of view the biggest challenge in achieving sector integration and climate neutrality, followed by the need to properly set carbon pricing.

Electricity, if correctly priced, has potential to provide cheap heating, cooling, transport and other essential services for the economy. Urban mobility and increased use of railway for long-distance travel can substantially contribute to decarbonisation efforts, if electrified. Thus, the sector integration strategy should also focus on providing correct incentives to boost decarbonisation of the transport sector, especially the public transport.

The revised TEN-E regulation should give priority to integration of decarbonised electricity and system flexibility projects while fostering interconnection and cross-border exchanges. Projects fostering electrification and direct use of electricity supplied from renewable and low carbon sources should be the preferred option as they are of the key importance for decarbonisation. More projects at the level of distribution grid will be needed to facilitate renewables integration.

## FUELS CONTRIBUTING TO ACHIEVING CLIMATE NEUTRALITY SHALL BE ACKNOWLEDGED AND OPERATE ON AN EQUAL LEVEL PLAYING FIELD.

Hydrogen will contribute to decrease in $CO_2$ emissions, if produced from low-carbon sources. In this context, all technologies shall operate on an equal level-playing field. Specifically, as acknowledged by the European Council conclusions from December 2019, some Member States will continue to use nuclear energy to achieve climate neutrality. Besides the large-scale units also Small Modular Reactors will contribute to cover the process heat needs of European industry and $CO_2$ free hydrogen production in the 2050 perspective and their integration must be strategically anchored. Carbon pricing shall ensure that technologies most contributing to $CO_2$ decrease are remunerated (especially by properly functioning EU ETS) and thereby a perspective for new investments is given.

CEZ GROUP

*May 2020*

## DIFFERENT STARTING POSITIONS OF MEMBER STATES SHOULD BE TAKEN INTO ACCOUNT.

The Czech Republic is a country heavily dependent on use of coal for energy purposes. Coal is also the main fuel used in its well-developed efficient district heating system. In a short-term, it will not be possible to substitute the whole coal capacity by renewables and nuclear only. From our point of view, natural gas and renewable gases shall complement generation from nuclear and renewables and be considered a transitional fuel contributing to system flexibility. Both natural gas and bio-gas produce GHG emissions when burnt and are not compatible with climate neutral economy in a long-term. They shall not be considered as equal to RES and financed by a state aid. The infrastructure used for renewable and decarbonised gases should be secured by repurposing of existing network, to avoid stranded investments and ensure cost-efficiency.

Regarding district heating, the role of waste incineration should not be omitted – especially if the Member States do not have sufficient waste treatment capacity installed yet. If linked to electricity and district heating system, the energy use of waste may considerably decrease overall emissions of the energy system.

## ANY LEGISLATIVE MEASURE SHOULD BE PRECEDED BY A DETAILED GAP ANALYSIS AND BE COMPLIANT WITH THE CLEAN ENERGY PACKAGE IMPLEMENTATION.

From a business point of view, the stability of regulatory framework is a number one priority. The Clean Energy Package is being implemented – including provisions on energy storage, renewables, demand response, and energy efficiency. We warn against any rush revision of the electricity market design provisions. A potential need to further incentivise energy efficiency and renewables' development must be assessed first, also based on the analysis of the National Climate and Energy Plans. However, some changes might be needed in the Gas Market Directive or in the TEN-E regulation to reflect the developments in the electricity sector.

While we support the demand response as a cost-efficient way of renewables integration (specific form of demand response is used in the Czech Republic since 80s´), we would like to note that its use as a substitute for distribution system may prove problematic. Use of the demand response measures is by its very nature riskier compared to reinforcement of the distribution grid. Availability of contracted grid capacity must always be ensured to secure energy system security. This should also be reflected in the upcoming network code on demand response flexibility. We urge the Commission to draft this network code involving all affected stakeholders, including electricity producers, retailers and traders, to ensure the text is well balanced and contributes to decarbonisation as well as energy security.