

ELECTRIFYING TOWARDS CLIMATE NEUTRALITY: CEZ GROUP'S POSITION ON EU STRATEGY FOR ENERGY SYSTEM INTEGRATION

The mission of the CEZ Group is to provide safe, reliable, and affordable energy to our customers as well as to inspire the society. Our vision is to develop innovations, in order to meet energy needs and contribute to a higher quality of life.

The Commission's communication on smart sector integration fully reflects our principles. Circular energy system is indeed the way to go if we are to achieve carbon neutrality in the 2050 horizon. We welcome that the strategy puts emphasis on direct electrification of end-use sectors, which correctly reflects outcomes of several studies on this matter.

Based on Eurelectric Decarbonisation Pathways Study, even higher share of electricity will be needed to achieve ambitious climate targets. We believe that share of electricity should rise at least to 60 % of final energy consumption in 2050. In general, any proposal for future policies outlined in the strategy shall be accompanied by sound impact assessment, elaborating on their consequences for citizens and industry, per Member State and per sector. Expected growth in electricity consumption shall also be properly reflected in relevant EU scenarios, modelling or National Climate and Energy Plans.

ELECTRICITY MUST BE COMPETITIVE WITH OTHER FUELS: CARBON PRICING IS KEY

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 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 cannot become a number one carrier if other sectors won't carry a fair portion of costs, based on their contribution to CO₂ production.

This efficiently means that sectors not covered by the EU ETS should be subject to carbon tax, which would be linked to EU ETS price. All installations, including the small ones, must carry a fair burden. Furthermore, we support revision of the Primary Energy Factor (PEF) under the EED in order to better reflect added value of carbon-neutral electricity.

Following up on this issue, we have serious doubts about economic feasibility of CCS for power sector. We believe we should rather utilize existing time proven technologies such as nuclear, which are unfortunately not even once mentioned in the strategy, despite nuclear being referred to as the backbone of the decarbonised energy system in the recent Long

Term Strategy. As acknowledged by the European Council conclusions from December 2019, some Member States will continue to use nuclear energy to achieve climate neutrality and thus nuclear technologies should not be neglected in the Commission's strategic documents. Besides the large-scale units also Small Modular Reactors will contribute to cover the process heat needs of European industry and CO₂ free hydrogen production in the 2050 perspective and their integration must be strategically anchored.

INCENTIVES FOR RENEWABLES & OTHER SOLUTIONS FIGHTING CLIMATE CHANGE ARE STILL NEEDED

Any obligations, such as mandatory green public procurement criteria or obligations for use of renewables electricity in transport should be linked to concrete incentives. In this regard, we welcome the pledge for direct funding under cohesion and InvestEU towards electrification, clean mobility and heating. We would like to note that large companies are the biggest investors into innovative solutions in Europe, employing millions of workers. They wish to drive the energy transition – but they need funding to be able to achieve this. Rules for distributing funds shall therefore include large companies, too.

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.

WE MUST ADDRESS THE ELECTROMOBILITY CHICKEN & EGG PROBLEM

Any proposed measures in the electromobility sector shall take account of the fact that the market is still developing and investment as well as operational support for infrastructure is still needed for mass uptake. While we fully support further EV infrastructure development, which is crucial for EVs uptake, it must be linked to concrete incentives. Disproportionate requirements would make electromobility more costly (e.g. obligation to install a payment terminal at all charging stations, while most of EVs drivers already use mobile apps which are less costly to operate). Measures shall also consider that more than 85 % of charging takes place in private charging points (houses, multiapartment houses, companies, etc.).

SECURE AND EFFICIENT ENERGY SYSTEM

We agree that regarding “energy efficiency first” principle, priority should be given to demand-side solutions over investments in energy supply only if they are more cost efficient. Moreover, they should also provide the same level of security of supply or costs related to security of supply shall be reflected in the CBA. Use of demand response as a pure substitute

for distribution grid development may prove problematic. Such measures are by their very nature riskier compared to reinforcement of the distribution grid. Availability of contracted grid capacity must always be ensured to secure energy system stability. 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.

PRODUCE LOCALLY WHEN POSSIBLE, TAKING ACCOUNT OF DIFFERENCES

District heating and cooling with renewable and low carbon energy sources provides one of the best examples of sector integration, already deployed in the market and could be further extended through different Member States. Efficient district heating system is already a major component of the Czech energy system. It connects small local sources but also big centralized sources of energy – such as waste heat from nuclear power plants. In this regard we welcome the Commission's emphasis on much larger use of waste heat which we believe has huge potential. In our view, the contribution of large installations should be taken into account and the strategy shouldn't focus on small installations only. Large installations are due to economies of scale able to efficiently separate and clean flue gases. Role of waste incineration should also not be omitted – especially if the Member States which do not have sufficient waste treatment capacity installed yet.

While we acknowledge that offshore renewable energy will be one of the important means to achieve our climate targets, we should not forget landlocked countries. Local renewable and low-carbon generation will be needed everywhere, to ensure its public acceptance.

LEGAL CONTINUITY FIRST

Finally, we acknowledge that the Commission plans to present number of revised legislative acts. While we acknowledge that some changes are necessary, legal continuity must be ensured.

Clean energy package was adopted only two years ago and is far from being implemented in most of the European Member States. We believe especially provisions on energy storage or local flexibility should firstly be implemented and tested, and only afterwards addressed in new legislation. Consumer rights addressed by the new legislative package targeting gas and district heating customers should mirror provisions of the Clean Energy Package.

We also see serious overlaps between suggested comprehensive terminology for all renewables & low carbon fuels and taxonomy regulations. We believe the Commission shall clarify the differences and purpose of new methodology well before its adoption and justify whether it is needed.