High-level Reflection Group on

"Main Energy Challenges of the European Green Deal"

Stanhope Group 3.0

Background Note for the Lunch Discussion on

EU Energy and ETS price developments: Implications for Fit for 55, the Gas package and State Aid Guidelines

19 January 2022

12:30-14:30h (online)

Participants

European Commission:
- **Cristina Lobillo**, Director, DG ENER
- [redacted]DG COMP
- **Yvon Slingenberg**, Director, CLIMA.

Industry:
- [redacted]EDF Europe
- [redacted]ENEL Europe & ME
- [redacted]Elia Group
- [redacted]Tennet
- [redacted]VNG AG
- [redacted]Hydrogen and CCS, BP *(tbc, invited as guest)*

The second lunch will take stock of the Fit for 55 after the publication of the Gas and hydrogen decarbonisation Package and the Energy and Environmental State Aid guidelines as well as the leaked version of the complementary delegated acts for gas and nuclear of the taxonomy. The discussion initially focusses on consistency and coherence of the packages. The second part will discuss the implications of the recent price developments in energy and the ETS markets and they might affect EU policy developments.

1. There seems to be an inconsistency between the sustainable finance legislations and the energy policy of the EU. One of the possibly more visible one relates to blending. While the gas package takes a cautious position on blending and supports it only in small doses, taxonomy introduces what seems to be a mandatory blending schemes for natural gas from 2026 to 2035. Another possible issue that configures a divergence between sustainable finance and energy policy is linked to peaking plants and, generally speaking security of supply-related assets. While fully included and protected in the energy policy (see the 2019 Electricity Regulation) and in the 2022 CEEAG (yet with a series of non-banal further specifications), they seem excluded for the scope of the transitional gas assets, as defined in the current version of the Delegated Act. Questions to discuss are the implications of the gas sector at large, if there are any and notably on peaking plants, such

as possible impacts on asset evaluation of peaking plants as well as energy price implications and for capacity remuneration mechanisms.

2. In a recent contribution[1], Isabel Schnabel, member of the ECB Executive Board established a structural link between energy/electricity prices, partly the result of the low-carbon transition and inflationary pressures. This has already been discussed in the first Stanhope Group and resulting paper[2] on page. It would be interesting to hear the views of the Stanhope Group members on this point. Isabel Schnabel's viewpoint is likely to further fuel the debate on decoupling electricity pricing from the merit order (marginal pricing). Is a decoupling a real option? If not, there is a risk that member states will undertake measures to 'reduce the influence' of marginal costs pricing? A final question in this context is why in the light of very high energy prices (gas and electricity) demand destruction – the only actual real solution for the EU – is not happening.

3. The above is also relevant for the ''future of the ETS, notably the – social, economic, and political – sustainability of ETS prices of EUR 70 and above. A first question again relates to the ETS/climate policy contribution to inflationary pressures. A second and more fundamental question is whether in the – almost complete – absence of binding targets e.g. for industrial decarbonisation, e.g. CCS, hydrogen etc. it is credible to assume that carbon pricing will be sufficient to engineer, alone, the switch to decarbonised or renewable energy feedstocks. Under current gas prices, the switch over ETS price from coal to gas is in the excess of EUR 200/t CO_2.

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[1] https://www.ecb.europa.eu/press/key/date/2022/html/ecb.sp220108~0425a24eb7.en.html
[2] https://www.ceps.eu/ceps-publications/electricity-sector-holds-the-key-for-the-eus-low-carbon-economy/