ENERGY POLICY WEEKLY
Policy & Regulation from Brussels and beyond

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Tusk appointment no setback for EU energy policy

EU elections

POLISH Prime Minister Donald Tusk will have limited influence over EU energy and climate policy despite being appointed president of the European Council, analysts have told *Interfax*.

The centre-right politician will take up office on 1 December, replacing former Belgian Prime Minister Herman Van Rompuy.

Tusk has suggested the creation of an EU 'energy union' – featuring a central purchaser of gas on behalf of member states – and his government has also voiced concern about the EU's climate targets beyond 2020.

However, his influence in the council – which represents the heads of the 28 member states – is expected to be limited.

"Environmentalists have expressed concern the role was given to a Polish national as this could undermine the ongoing work on climate action. But Tusk's powers are limited to that of a chair and a coordinator; he will not be able to push his personal agenda too strongly," Annika Hedberg, a senior policy analyst with Brussels-based thinktank the European Policy Centre, told *Interfax*.

EU leaders will try to reach an agreement in October on energy and climate targets for 2030. The European Commission has proposed a 40% target for cuts in carbon dioxide emissions, a 27% renewables target and a 30% energy efficiency target.

If the council fails to strike an agreement next month, it will be up to Tusk to chair the next meeting. Poland will find it difficult to reach ambitious climate targets because of its dependence on CO2-intensive coal-fired power generation.

Energy union

The country's dependence on Russian gas is also a sore point. This was one of the factors behind Tusk's proposal for creating an energy union.

Although the commission is studying the proposal, it has been met by much scepticism by the oil and gas industry as well as by influential member states (see *Gas union is not a solution to EU supply concerns – industry*, 3 July 2014).

Donald Tusk

- Elected President of the European Council from 1 December 2014 until 31 May 2017
- A centre-right politician, Tusk has been the prime minister of Poland since 2007.
- Tusk raised the idea of an 'energy union', with a single purchaser of gas on behalf of EU member states, in April this year.

Sources: European Commission, Interfax

"I doubt that Tusk will be able to push his own energy policy agenda strongly. Van Rompuy did not push a very Belgian agenda during his term," Georg Zachmann, a Brussels-based research fellow at the Bruegel thinktank, told *Interfax*. "An energy union, in terms of a joint purchasing body for gas, will in any case not find much political support. Germany is one major country that is against it."

Tusk was appointed council president with support from both the UK and Germany. In addition to energy and foreign policy, unemployment, strengthening the eurozone and the UK's future in the EU will top his agenda.

"It will be interesting to see how Tusk defines this role. The leaders of the 28 EU member states are strong-minded people and – as a president of the council – he will need to take a cooperative and diplomatic approach," said Hedberg.

"Tusk will be able to influence the council's political agenda and the frequency of council meetings. A lot of the work will be done behind the scenes; a good diplomat will be able to push for agreements between member states," Hedberg added.

Following the appointment of Tusk as council president and Italy's Federica Mogherini as the EU's foreign affairs chief, commission President-elect Jean-Claude Juncker intends to announce the new commissioners by the middle of next week, according to an official statement. ■

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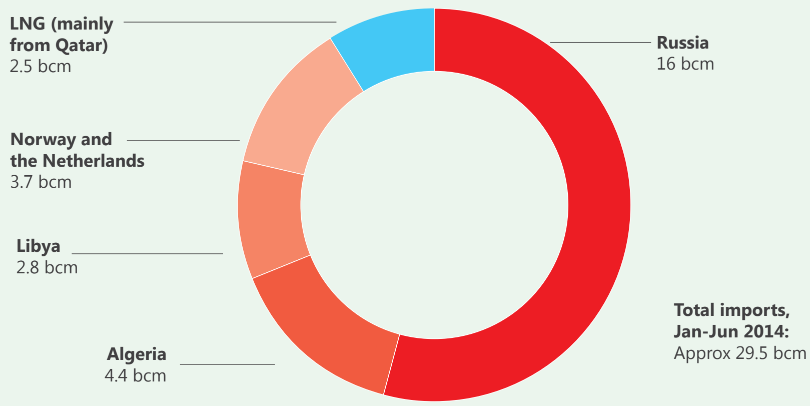
Italy awaits EU gas supply 'stress test'

Energy security



Source: Italian Ministry of Economic Development, Department of Energy

THE results of the EU 'stress test' on Italy's gas supply are expected in October and could put further pressure on the country to diversify its energy sources. Italy is Europe's second-largest importer of Russian gas and is particularly exposed to supply cuts because its alternative sources, from Libya, are unstable.

If Russia cut supplies or Ukraine halted gas transit, Italy's security of supply would be threatened, despite the fact that Italian storage facilities are 92% full at a level of 15 billion cubic metres, according to Nicolo Sartori, energy researcher at the Istituto Affari Internazionali.

"By increasing supplies from Algeria, Italy will be able to overcome this winter. But considering the turmoil in Libya and the storage situation in Ukraine – where stocks are only 42% full – this is certainly a critical situation for the country's security of supply," Sartori told *Interfax*.

Libyan imports between January and June 2014 fell by 6.8% compared with the same period in 2013 – from 3 bcm to 2.8 bcm – but monthly imports increased from an average of 466 million cubic metres to 644 MMcm in August. Russia exported 71 % of its gas to Europe, with the largest volumes going to Germany and Italy, according to the EU's Energy Security Strategy.

The stress tests are coordinated by the European Commission with member states, regulators and transmission system operators (TSOs). They measure the effects of a possible supply disruption on the Ukrainian transit route, and of all Russian gas supplies to the EU, for the upcoming winter season.

"Work on the energy security stress test for the entire EU – including Italy – is ongoing," a commission source told *Interfax*.

The reports will also assess the impact disruptions could have on the power sector and the effects on neighbouring countries. Member states will submit these reports to the commission by end of August. The commission will present its conclusions, together with possible recommendations, to the European Council on 23-24 October.

"Libya is in chaos and both oil and gas exports remain at significant risk," Alastair Newton, senior political analyst at Nomura International, told *Interfax*.

Cut-off unlikely

However, Newton regards a Russian gas cut-off to the EU (as opposed to Ukraine) as unlikely. "Russia has no alternative markets and needs the revenue," he added.

Italy's Eni remains the biggest foreign producer in Libya. Following the Ukraine crisis, Libya's gas deliveries to Italy reached their highest in 11 months, meeting more than a third of the country's needs, according to Italian TSO Snam.

The GreenStream pipeline connecting Libya to Italy was shut down from February to November 2011 because of the Libyan uprising. The Arab Spring also caused concerns that Algerian supplies, which provide 30-35% of imports, could be cut off.

Pipeline imports accounted for about 80% of Italy's gas consumption in 2011, while LNG imports provided another 12%.

Snam is working with Belgian TSO Fluxys to establish reverse-flow capacity from Italy to northwest Europe that could also transport gas from Azerbaijan to central European markets (see *Italy to provide reverse flows from 2016*, 17 July 2014). Member states are obliged to establish physical reverse flows under the EU's security of supply regulations.

"We are developing reverse-flow capacity [to serve] central and north Europe," Claudio De Vincenti, Italy's deputy minister for energy, said at a conference in July. "[Snam] is working on this; from 2016, the physical reverse flows of gas from Italy to central and north Europe will be available at a level of 40 MMcm/d."

Snam plans to export more than 5 MMcm/d to north Europe at Passo Gries on the Swiss-Italian border by 2015, and 18 MMcm/d at Tarvisio on the Austrian-Italian border.

Italy is heavily reliant on gas imports, producing only around 11% of the gas it consumes. However, the country's demand for gas has fallen sharply in recent years, dropping 19% from 79.1 bcm in 2005 to 64.2 bcm in 2013, according to BP statistics.

This has been driven in part by a move towards renewables, which provided 8% of Italy's total primary energy consumption in 2013. ■

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Europe under stress

- Russia exports 71 % of its gas to Europe, with the largest volumes to Germany and Italy.
- Italian storage is 92% full (15 bcm).
- Following the Ukraine crisis, imports from Libya increased from an average of 480 MMcm per month in 2014 to 644 MMcm in August.
- The European Commission will present stress test results at the European Council on 23-24 October.

Sources: Snam, EU Commission

Brussels scrutinises export bans in Bulgaria and Romania

Competition law

THE European Commission has launched a string of antitrust investigations into export restrictions on gas and power in Romania and Bulgaria.

The most recent announcement came on 12 August, when the commission sent a statement of objections to state-owned Bulgaria Energy Holding (BEH) concerning export restrictions on wholesale electricity.

The commission said the majority of electricity supply contracts signed by BEH with traders stipulate electricity supplied by BEH may only be resold within Bulgaria or, alternatively, may only be exported. Territorial restrictions constitute abuse of BEH's dominant position in the Bulgarian energy market and are a breach of competition law under Article 102 of the Treaty on the Functioning of the EU, the commission said.

Anti-trust investigations

Bulgaria

- July 2013: The commission opened an investigation on suspicion that BEH's subsidiaries Bulgargaz and Bulgartransgaz might be hindering competitors from accessing key gas infrastructure.
- 12 August 2014: The European Commission sent a statement of objections to Bulgaria Energy Holding (BEH) concerning export restrictions in wholesale electricity. The investigation was first opened in November 2012.

Romania

- 5 March 2014: The commission imposed a €1 million joint fine on power exchange OPCOM and transmission system operator Transelectrica, on the grounds that they committed a breach of Article 102 of the Treaty on the Functioning of the European Union by requesting that EU traders wishing to participate in the Romanian electricity markets register for VAT purposes in Romania.
- 10 July 2014: The commission requested Romania remove barriers to exports of gas which it said were in breach of its free movement of goods principle.

The case illustrates Bulgaria has been generally slow to implement market liberalisation measures required by EU law, partly because of concerns over rising energy costs.

"The Bulgarian authorities have generally been passive in implementing market liberalisation measures required under the EU's Third Energy Package. There is a general concern that electricity prices might go up if the market is fully liberalised. Potential change in energy prices has become a serious political debate... [not the least] in the build-up to the general election in October," Julian Spassov, a Sofia-based partner with law firm McGregor & Partners, told *Interfax*.

BEH, on the other hand, said export restrictions no longer apply and that they concerned contracts entered into by its subsidiaries: Natsionalna Elektricheska Kompania, the Maritza East 2 coal-fired plant and the Kozloduy nuclear power plant.

This is not the first time BEH has come under scrutiny over suspected anticompetitive behaviour. In a separate investigation, opened in July 2013, the commission is investigating whether BEH's subsidiaries Bulgargaz and Bulgartransgaz might be hindering competitors from accessing key gas infrastructure (see Bulgaria antitrust inquiry sets focus on capacity hoarding, 16 August 2013).

Romanian export bans

Neighbouring Romania has also come under pressure to liberalise its energy market. On 10 July, the commission requested Romania remove barriers to exports of gas, which it said were in breach of the principle of free movement of goods. A commission spokeswoman told *Interfax* it had been contacted by Romanian authorities to discuss the case, but would not give further details.

Legal experts told *Interfax* the case refers to the Romanian Electricity and Natural Gas Law no. 123/2012, which obliges gas producers to prioritise domestic consumption.

"The applicable Romanian law on electric energy and natural gas obliges producers to sell gas with priority to suppliers to fulfil domestic demand. Also, the government does not want to be dependent on foreign imports, i.e. Russian gas. According to state officials, the gas Romania buys from Russia is three times more expensive than domestically produced gas," Catalin Suliman, a Bucharest-based partner with Schoenherr, told *Interfax*.

With November's presidential election looming, powerful industrial groups are also putting pressure on the Romanian government to keep energy prices down.

"These are tremendously powerful people. They can threaten the government that they will make workers redundant if they don't get their way. This has to some extent already happened, with InterAgro suspending workers over perceived high energy costs. Add to this that the Romanian presidential election is coming up in November, and one can see why the government may bow to pressure," Ciprian Glodeanu, a Bucharest-based partner with law firm Wolf Theiss, told *Interfax*.

Gas producers in Romania are now obliged to sell 20% of their output on a national exchange, with the regulator also recognising an obligation to provide Moldova with gas during winter – suggesting an easing of the rules restricting exports.

However, with the exception of the new link with Moldova, technical reverse flows from Romania to its neighbours remain limited.

"It appears that the Romanian state has not been very supportive in developing reverse flows with Hungary, for instance, despite interest from Romanian producers," said Glodeanu.

It also remains to be seen if Romania can become a net exporter of gas. It currently imports around 20% of its gas from Russia, with annual consumption standing at 13.6 billion cubic metres, according to the International Energy Agency's 2012 estimate.

"Optimistic estimates suggest significant oil and gas reserves exist in the Black Sea basin off the coast of Romania, but the fact some of these blocks are virtually bordering the shores of Crimea raises certain geopolitical implications. Moreover, estimates that Romania holds enormous onshore shale gas reserves have been dismissed by some as overly optimistic," Bryan Jardine, a partner with Wolf Theiss, told *Interfax*. ■

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EU urged to find common position on climate

Environmental policy

WHILE the European Commission is optimistic a global deal on emissions and efficiency can be reached at the UN climate summit in Paris next year, MEPs have pointed out the EU has still not reached a common position on its own targets.

Policymakers from all over the world will meet in the Peruvian capital Lima between 1-12 December this year to discuss binding carbon dioxide emission cuts in order to reach a global agreement in Paris in 2015.

"In Paris, the EU wants to see a new agreement between all the major parties," Artur Runge-Metzger, director of international and climate strategy for the Directorate-General for Climate Action told the committee on Industry, Research and Energy (ITRE) in Brussels this week.

"Looking at climate politics internationally, we see some reason for hope; the Obama administration is taking climate change seriously and is trying to implement legislation that is unprecedented," Runge-Metzger said.

Chinese emissions trading

Runge-Metzger said China is also continuing work on an emissions trading system (ETS). Beijing, Shanghai and Tianjin set up pilot emission trading exchanges in 2008, and have added other provinces to the scheme, while China is gradually establishing an emissions market.

However, the EU has not yet found a common position on new climate targets.

"It is worrying that Europe doesn't have a pledge of its own and is still discussing [targets], although the European Parliament stated clearly in February it supports a 40% greenhouse gas reduction, 40% energy efficiency and 30% [of electricity generation from] renewable energy," Kathleen Van Brempt (S&D, Belgium) told parliament.

The commission proposed a 30% energy efficiency target for 2030 in July – 10% lower than the limit MEPs had previously called for.

Member states are expected to decide on the 2030 climate targets at a European Council meeting on 23-24 October. The member states will also decide whether the targets will be binding or not.

"It also worries me that only a few European prime ministers will attend the climate summit [UN Secretary General] Ban Ki-moon has organised for September," Van Brempt said.

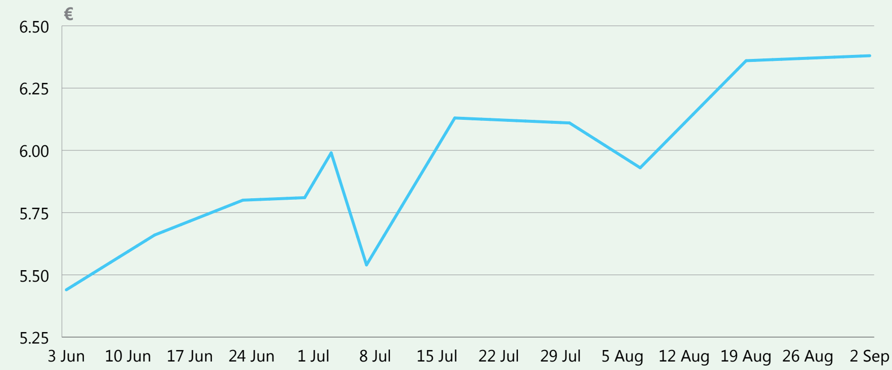
Ban invited world leaders to an informal Climate Summit on 23 September, but some of the world's largest emitters are said to be missing the meeting.

While Indian Prime Minister Narendra Modi has announced he will not attend, it is unclear whether Chinese President Xi Jinping will join the meeting.

"This is somewhat an indication of the importance governments pay to the topic," Van Brempt added.

ITRE's resolution – which summarises the committee's position for the Lima conference – also called for the phasing-out of subsidies for fossil fuels, which amounted to $544 billion worldwide in 2012 according to the International Energy Agency.

EU Emissions Trading System allowance price



Source: ICE

Coal in the EU

While the price of carbon allowances within the European ETS are slowly recovering and currently trading at €6.38 ($8.38) at the ICE Futures exchange, prices are still not encouraging a switch from coal to gas.

Germany and Poland remain the top users of lignite (brown coal) in Europe. A recent analysis by Greenpeace found around 10% of the EU's total CO2 emissions come from burning lignite, which releases more CO2 than hard coal.

According to the study, Germany emits 155.37 mtpa of CO2 by burning lignite, whereas Poland emits 54.27 mtpa. ■

Next steps

- **23 September 2014**: UN Secretary General Ban Ki-moon's informal Climate Summit
- **23-24 October**: EU member states to agree 2030 climate targets at a council meeting
- **31 October**: International Panel on Climate Change to present new climate report
- **1-12 December**: UN Climate meeting in Lima
- **30 November-11 December 2015** UN Climate Change Conference in Paris

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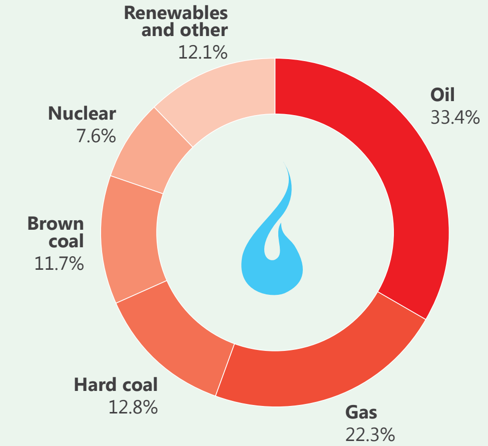
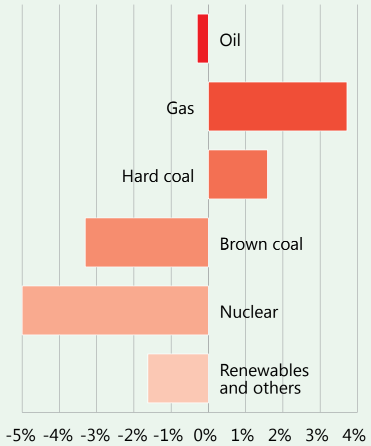
Germany uses more gas in 2013, but forecast is for decline

Germany's primary sources of energy in 2013 and year-on-year change





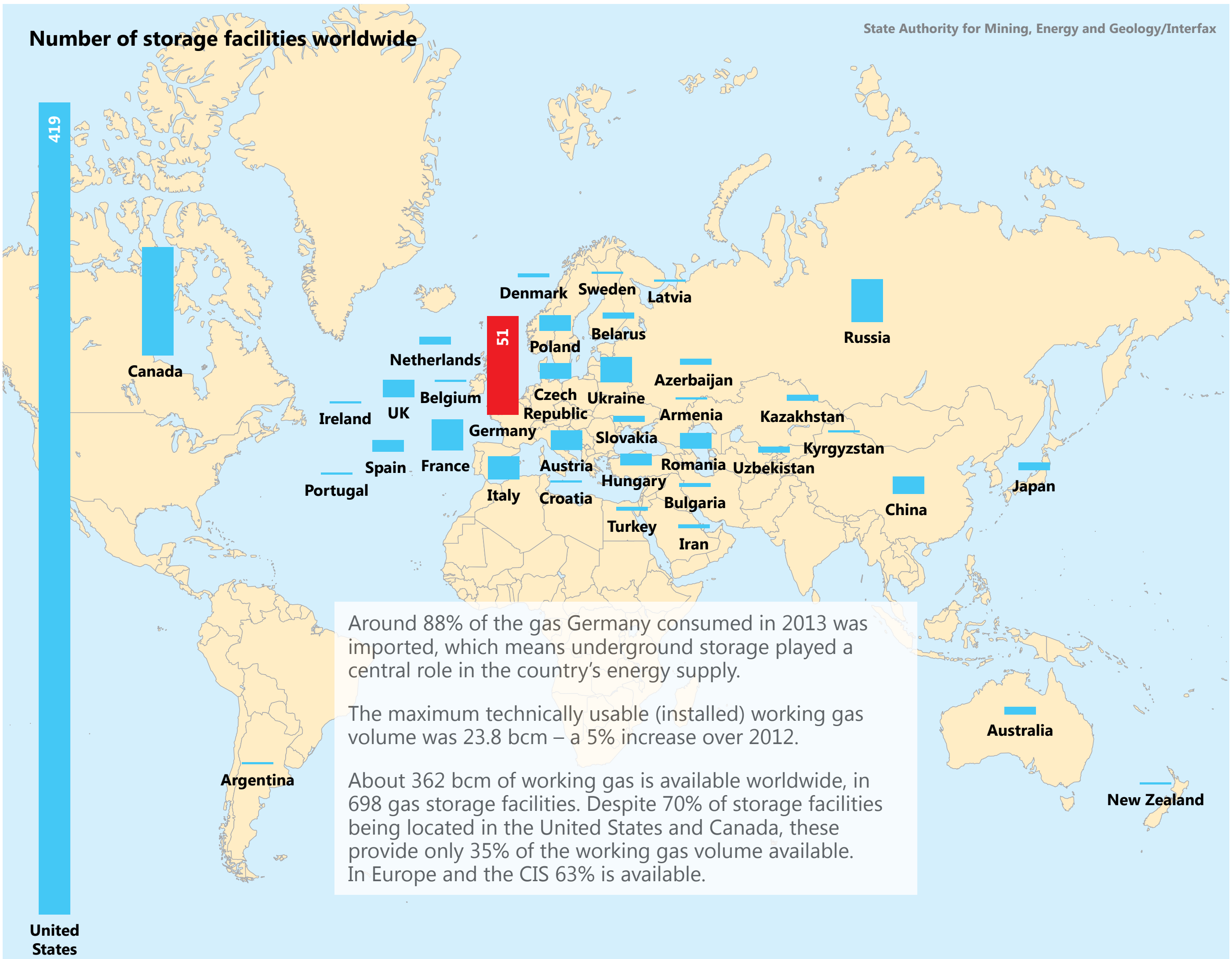
Source: State Authority for Mining, Energy and Geology

Gas accounted for 22.3% of Germany's primary sources of energy in 2013, but the country's domestic production declined by 9% to 9.7 bcm because of depleted deposits. Domestic gas production accounted for nearly 12% of consumption.

Overall, Germany consumed 98 bcm of gas, 6% more than in 2012. The State Authority of Mining, Geology and Energy has forecast a slight decrease in future gas demand because of technological progress and increasing energy efficiency.

Number of storage facilities worldwide

State Authority for Mining, Energy and Geology/Interfax



Around 88% of the gas Germany consumed in 2013 was imported, which means underground storage played a central role in the country's energy supply.

The maximum technically usable (installed) working gas volume was 23.8 bcm – a 5% increase over 2012.

About 362 bcm of working gas is available worldwide, in 698 gas storage facilities. Despite 70% of storage facilities being located in the United States and Canada, these provide only 35% of the working gas volume available. In Europe and the CIS 63% is available.

Annemarie Botzki Brussels correspondent

Environmental policy	Competition law	Energy security

Date	News	Country/ stakeholders	What this means
1 Jul	The European Court of Justice (ECJ) ruled that a Swedish 'green certificate' scheme for renewables is compatible with EU competition law. The decision settles a dispute between Finnish wind power company Ålands Vindkraft and the Swedish energy agency Energimyndigheten over the latter's refusal to award Ålands green electricity certificates. An Ålands wind farm that feeds into the Swedish grid was refused the certificates, and Ålands challenged the decision in the Swedish courts. Sweden's Administrative Court then asked the ECJ whether the country's scheme is compatible with EU law and the EU principle of free movement of goods.	Sweden, Finland, EU 28	The ECJ's decision means the European Renewable Energy Directive (RED) remains valid. Under RED, EU member states that grant benefits to producers are not required to support the use of green energy produced in another member state. Reactions to the court's decision have been mixed. Some argue the ruling adds clarity for investors in the wind industry and reinforces a stable regulatory framework. However, the European Federation of Energy Traders pointed out the scheme discriminated against foreign generation and therefore was a "missed opportunity" to restore the integrity of the single electricity market.
8 Jul	The planned White Rose carbon capture and storage (CCS) demonstration project at the UK's Drax power station in North Yorkshire secured €300 million ($394 million) in funding from the European Commission's NER300 scheme. White Rose is the only CCS project to receive cash from NER300, which uses revenue from the EU's Emissions Trading System (ETS) to help fund clean technology projects. White Rose was launched by Capture Power, a joint venture between Drax, France's Alstom and the UK's BOC. It envisages building a full-scale CCS facility that would include a new 426 MW coal-fired plant at the Drax site.	UK, EU 28	EU Commissioner for Climate Action Connie Hedegaard said the sum awarded to White Rose was "substantial", but played down expectations regarding the future role of CCS in Europe. CCS has suffered several setbacks over the years. Low carbon prices under the ETS and the recent recession have reduced interest in the technology. Last year, the Norwegian government and Statoil abandoned a CCS project at Mongstad. Moreover, none of the 13 CCS projects submitted under the NER300 first call in 2012 were shortlisted. This was partly because of funding gaps and insufficient maturity, according to the commission.
23 Jul	The European Commission cleared the UK's proposed capacity market for power plants after it ruled the proposal is in line with its state aid rules. The commission said the system – which compensates power plant operators for future availability – would ensure security of supply without distorting competition in the single market. New generators will be eligible for a 15-year capacity agreement. Other providers will be eligible for one-year capacity agreements, apart from generators needing significant refurbishment. The UK plans to auction 53.3 GW of capacity for the first delivery year in 2018/2019, of which 50.8 GW is to be auctioned in December 2014.	UK, EU 28	London hopes the system will strengthen security of supply in the UK after a series of plant closures over new environmental standards and a lack of profitability. The decision will have been watched closely by other EU member states – including France and Italy – which have also proposed capacity markets for power generators. However, the principle of cross-border participation – which would allow market participants in France, the Netherlands and Ireland to join the UK scheme – has yet to be implemented. It is unclear how cross-border participation will work in practice, and whether it will allow operators of power plants or interconnectors to take part.
23 Jul	The commission proposed a 30% energy efficiency target for 2030 – 10% lower than the limit MEPs in the European Parliament had previously called for. The commission said the targets would contribute to energy security and reduce fossil fuel imports, especially from Russia. It also said they would lower energy bills across the region by €53 billion ($70 billion) annually by 2030. However, financing remains an obstacle, especially in countries hit hard by the recession. The commission estimates reaching the 30% target by 2030 would require an additional investment of €89 billion per year across the EU.	EU 28	The European Parliament called for a 40% target by 2030 in February. However, EU Commissioner for Energy Günther Oettinger had previously said a 40% target was too high and not realistic. The proposal needs the backing of member states in the Council of the EU. The council is expected to make a decision on energy efficiency targets in October, together with targets for emissions reduction and renewables. Oettinger said there is "a good chance" the council would support the proposed energy efficiency targets, and that burden sharing – where some countries commit to higher targets than others – would likely be considered.
12 Aug	The commission has informed Bulgarian Energy Holding (BEH) of its preliminary view that restrictions on resale in BEH's electricity supply contracts with traders on the Bulgarian wholesale electricity market may breach EU antitrust rules. The restrictions concern reselling electricity bought from BEH. The commission said a majority of the contracts between BEH and traders stipulate that electricity supplied by BEH may only be resold within Bulgaria or may only be exported. The commission's provisional finding is that these territorial restrictions are an abuse of BEH's dominant market position, which is prohibited by EU law.	Bulgaria, Southeast Europe	The commission formally opened its investigation in November 2012. A statement of objections is a formal step in commission investigations into suspected violations of EU antitrust rules. It does not prejudge the final outcome of the investigation. BEH said the investigation refers to provisions set out by its subsidiaries and which no longer apply. In a separate investigation, the commission is also looking into whether BEH, its gas supply subsidiary Bulgargaz and its gas infrastructure subsidiary Bulgartransgaz might be hindering competitors from accessing key gas infrastructure in Bulgaria.