FISR2

STRUCTURAL REFORMS BETTER INTEGRATED WITHIN FISCAL FRAMEWORKS

Future Demands and Challenges for the WB and Türkiye in the European Energy Market

Dr.Janez Kopač, 18 February 2025, Ljubljana

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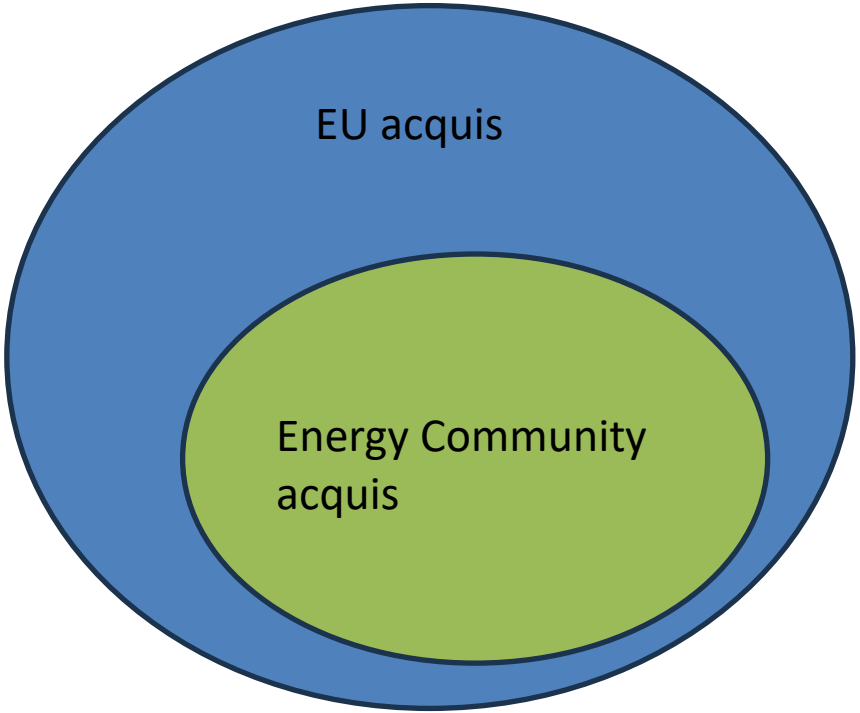
Acquis means ALL acquis



Examples:

- Renewables III Directive.
- Energy Performance of Buildings Directive (twice revised compared to the Energy Community version).
- REMIT Regulation – full version.
- New Electricity Market Design from 2024 (one Directive and several Regulations) etc.

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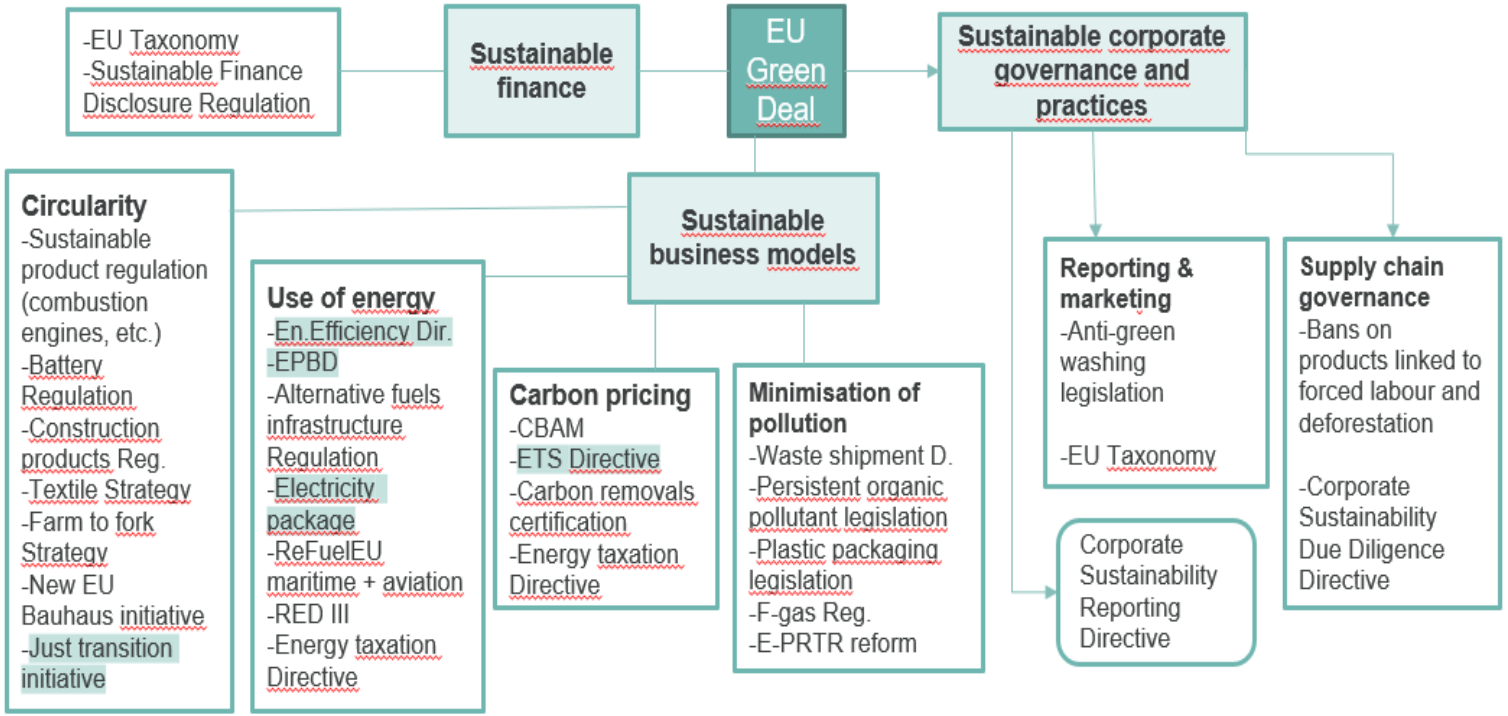
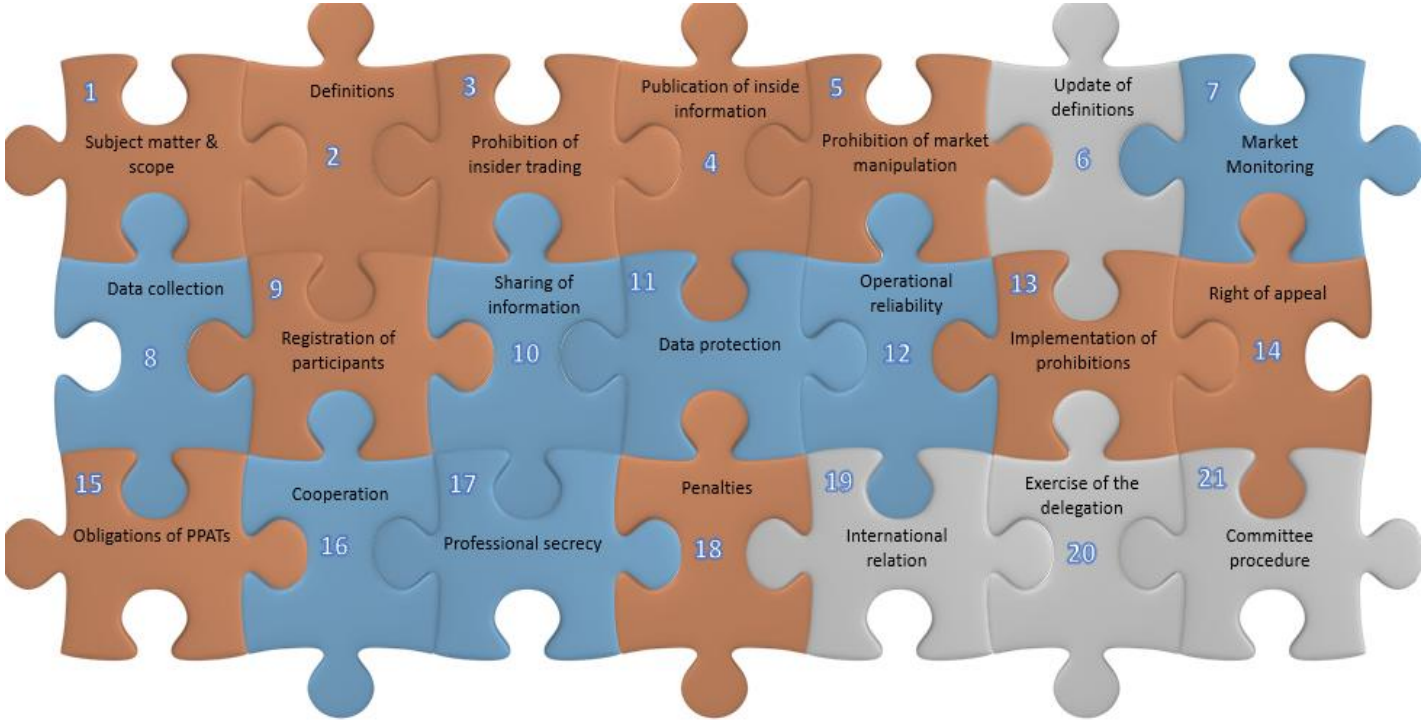
Green Deal


-EU Taxonomy
-Sustainable Finance Disclosure Regulation
Sustainable finance
EU Green Deal
Sustainable corporate governance and practices
Circularity
-Sustainable product regulation (combustion engines, etc.)
-Battery Regulation
-Construction products Reg.
-Textile Strategy
-Farm to fork Strategy
-New EU Bauhaus initiative
-Just transition initiative
Sustainable business models
Use of energy
-En.Efficiency Dir.
-EPBD
-Alternative fuels infrastructure Regulation
-Electricity package
-ReFuelEU maritime + aviation
-RED III
-Energy taxation Directive
Carbon pricing
-CBAM
-ETS Directive
-Carbon removals certification
-Energy taxation Directive
Minimisation of pollution
-Waste shipment D.
-Persistent organic pollutant legislation
-Plastic packaging legislation
-F-gas Reg.
-E-PRTR reform
Reporting & marketing
-Anti-green washing legislation
-EU Taxonomy
Corporate Sustainability Reporting Directive
Supply chain governance
-Bans on products linked to forced labour and deforestation
-Corporate Sustainability Due Diligence Directive

REMIT Regulation



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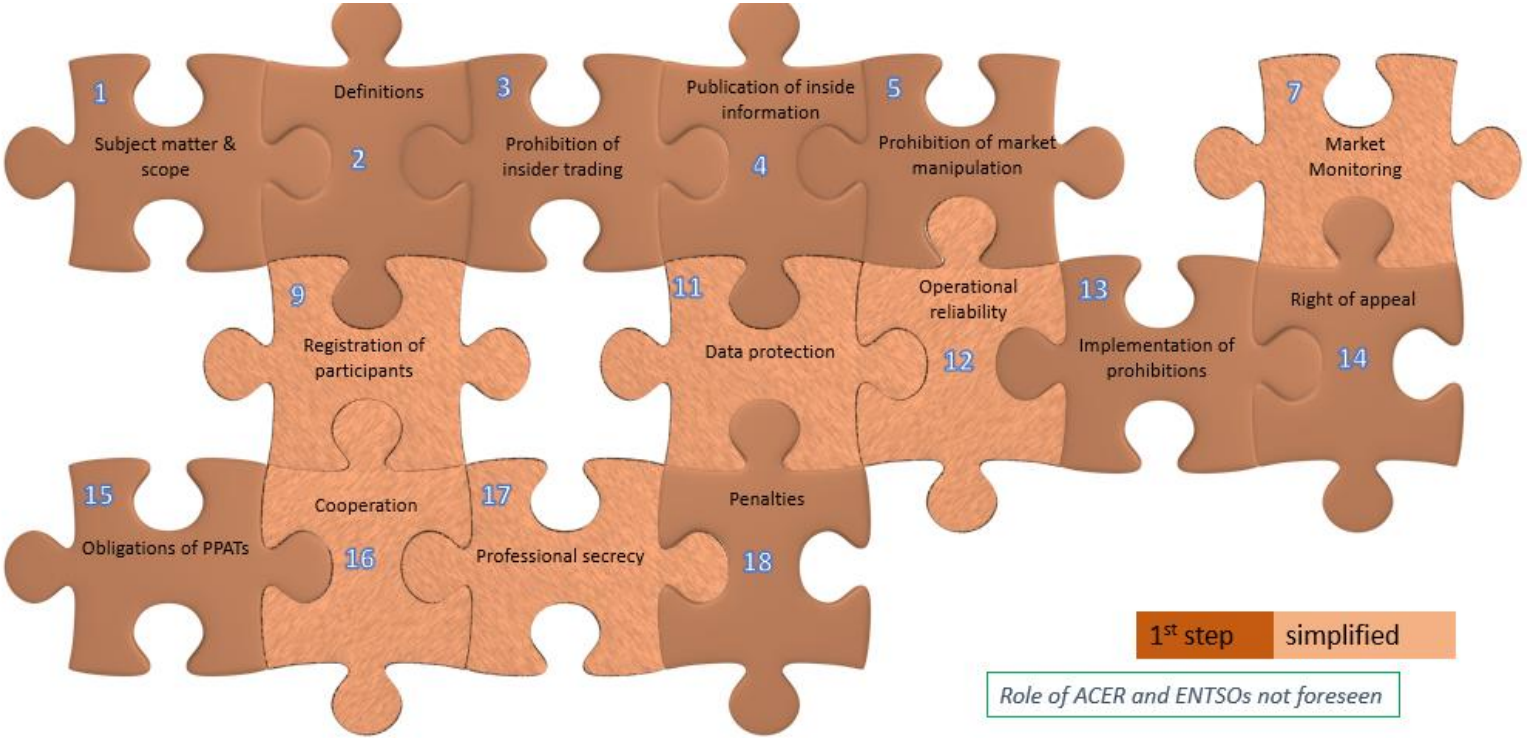
REMIT in the Energy Community



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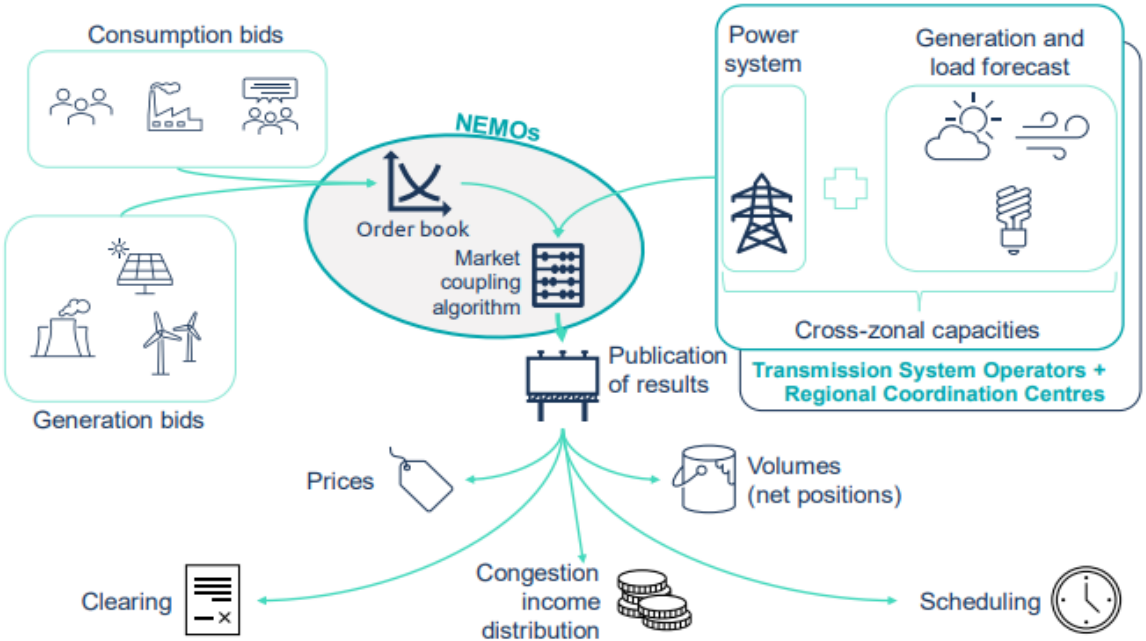
Market coupling



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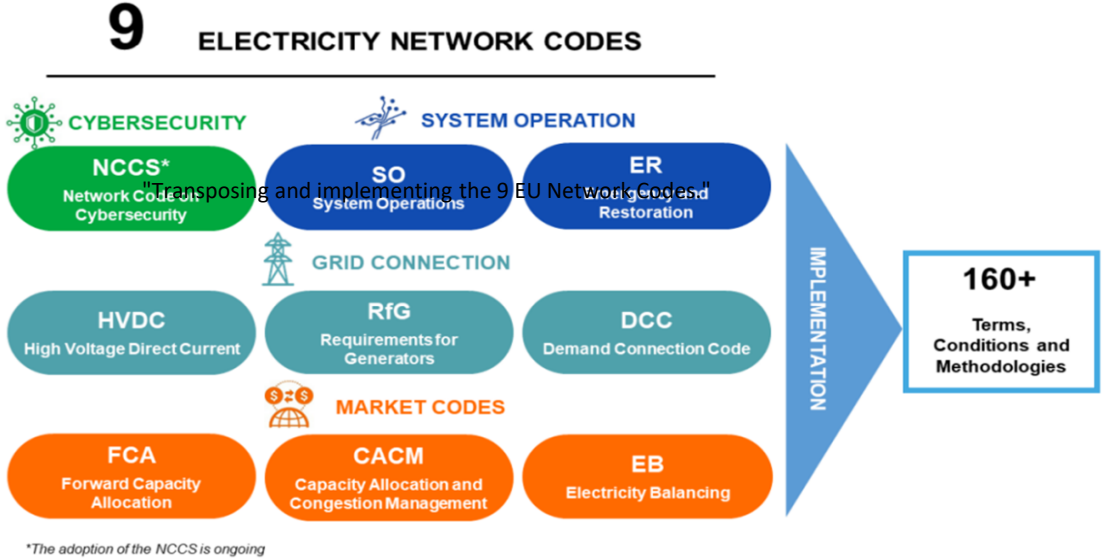
TRANSPOSITION AND IMPLEMENTATION OF 9 EU NETWORK CODES

The 9 electricity network codes define more than 160 TCMs!



"Transposing and implementing the 9 EU Network Codes."

Source: CREG

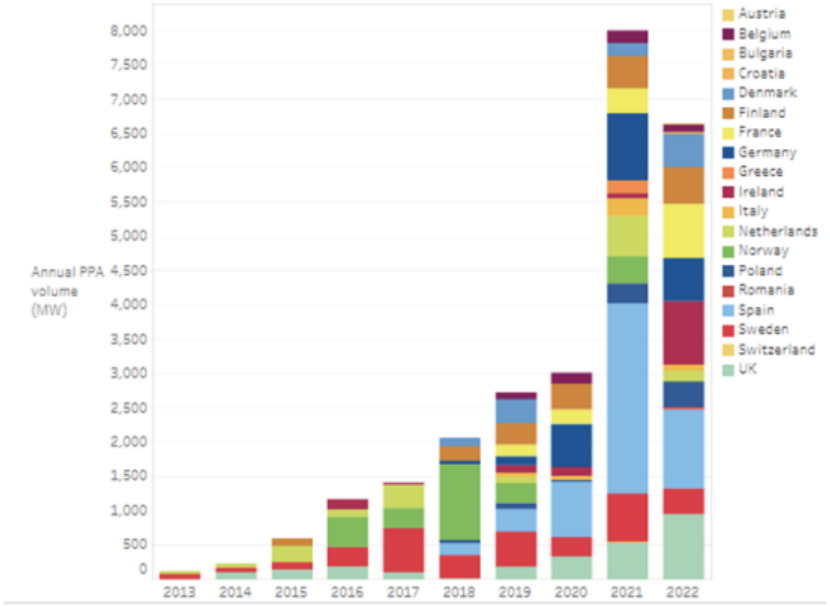
And soon a 10th on Demand Response?

New Electricity Market Design

- **Diverse Contract Options**: (fixed-price and dynamic pricing options for consumers)
- **Energy Sharing Initiatives** (promoting local renewable energy consumption).
- **Support for Power Purchase Agreements (PPAs)**
- **Obligatory Two-Way Contracts for Difference (CfDs)**
- **Capacity Mechanisms** – optional
- **National objective (plan) national objective for non-fossil flexibility –** demand response and energy storage

Evolution of PPA market in Europe

An instrument most suitable for a shorter period, i.e. up to 3 years!!!



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Source: Windeurope Intelligence platform

Contracts for Difference – a magic formula (case of France)?

An instrument for a longer period !!!

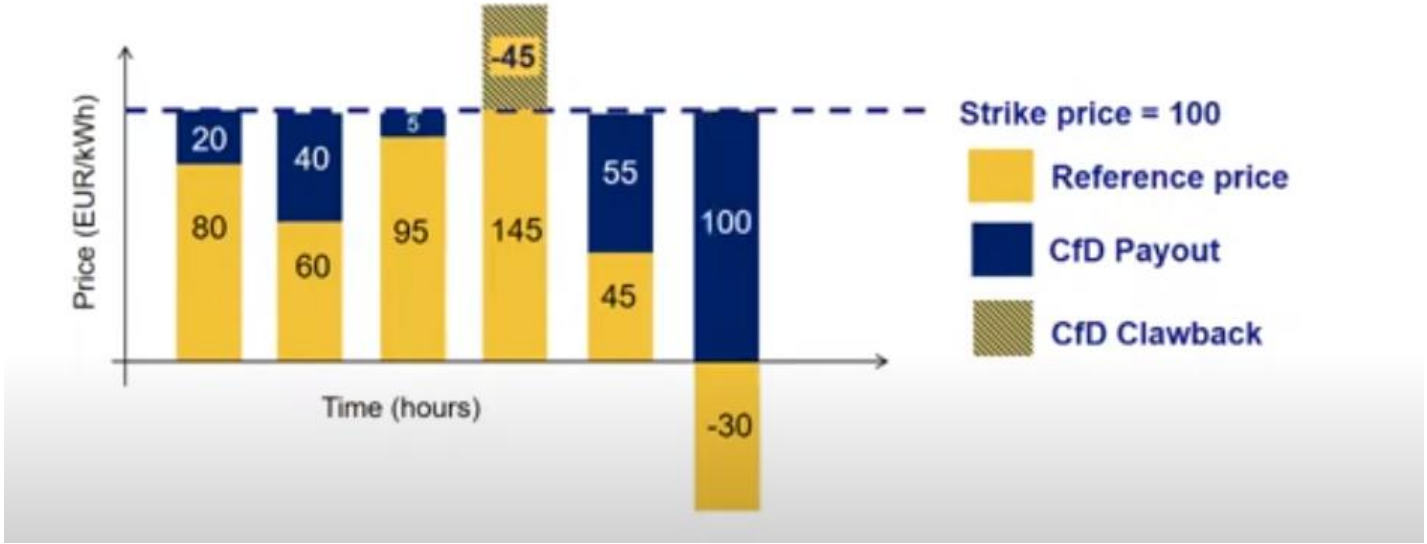
In the past important for subsidization, but now as a **market creation instrument**

17 billion in revenue by 2023

In its November report, the CRE announces Christmas before its time. According to the French regulator, renewable energy feed-in tariffs will yield €17 billion to the State budget in 2023. This brings the total revenue for 2022 and 2023 to €30 billion. Onshore wind power is the main contributor (€12.7 billion in 2023), followed by solar photovoltaic (€2.6 billion) and bioenergy (biogas and biomass €1.2 billion). These revenues are due to the difference between the contractual purchase price of electricity from renewables and the wholesale market price. The State has to make up the difference, but as the energy crisis has driven the price of electricity on the wholesale markets to unprecedented highs, the price differential has become negative, thus in favor of the State. Before the energy crisis, the feed-in tariffs for electricity produced by wind turbines and photovoltaic panels were well above market prices. Renewables were highly subsidized. The shortfall for the State has accumulated with the penetration of renewables bringing the bill to €5.7 billion yearly for 2019. The reversal of the trend is even more spectacular as the charge is cumulative: contracts with high purchase prices before the decline in the cost of renewables in recent years are still honored.

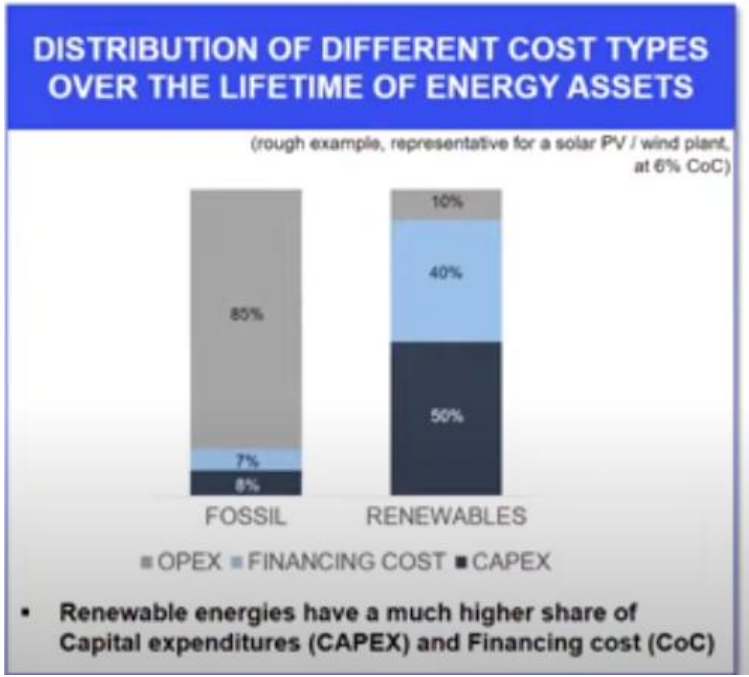
Source: Toulouse School of Economics

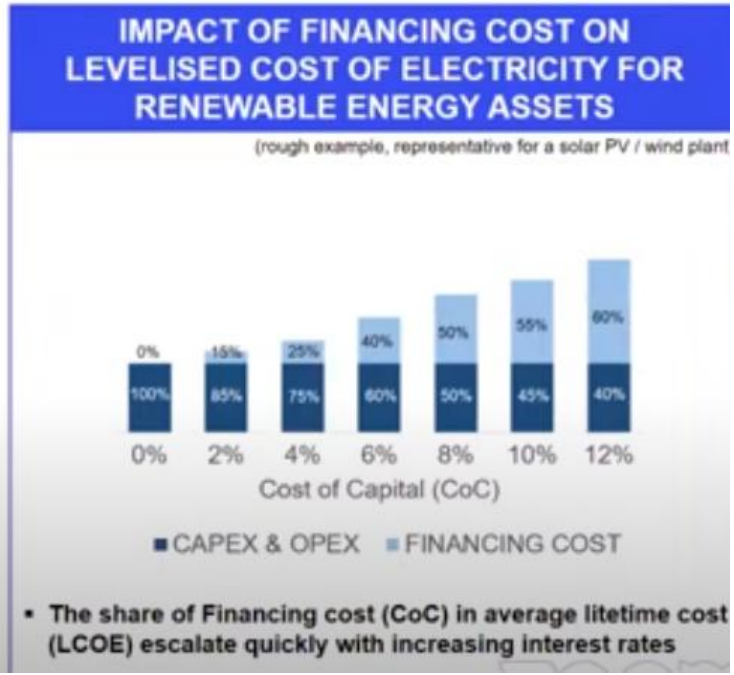
What do CfD do?



Source: Lena Kitzing, 2023

Why are CfDs so relevant for renewables assets? 1





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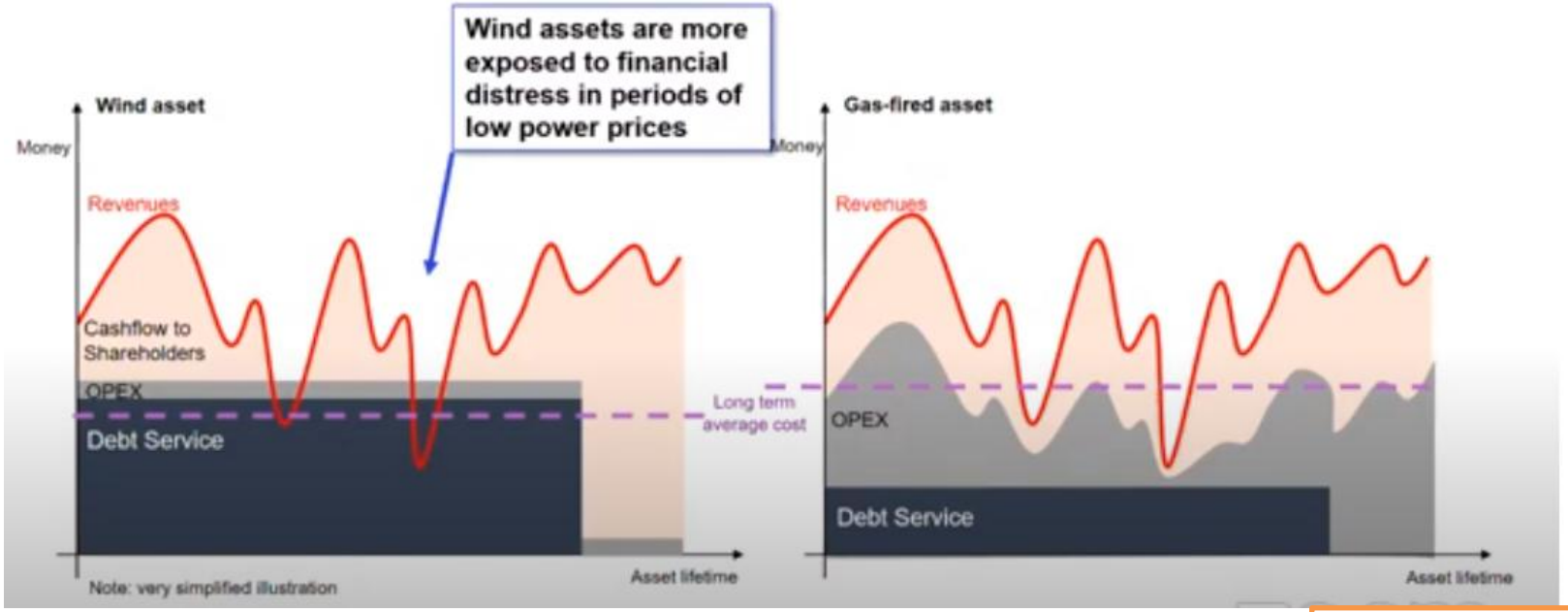
Source: Lena Kitzing, 2023

Why are CfDs so relevant for renewables assets? 2



Source: Lena Kitzing, 2023

Carbon pricing

Emission Trading Scheme Directive

MRR Regulation

ARR Regulation

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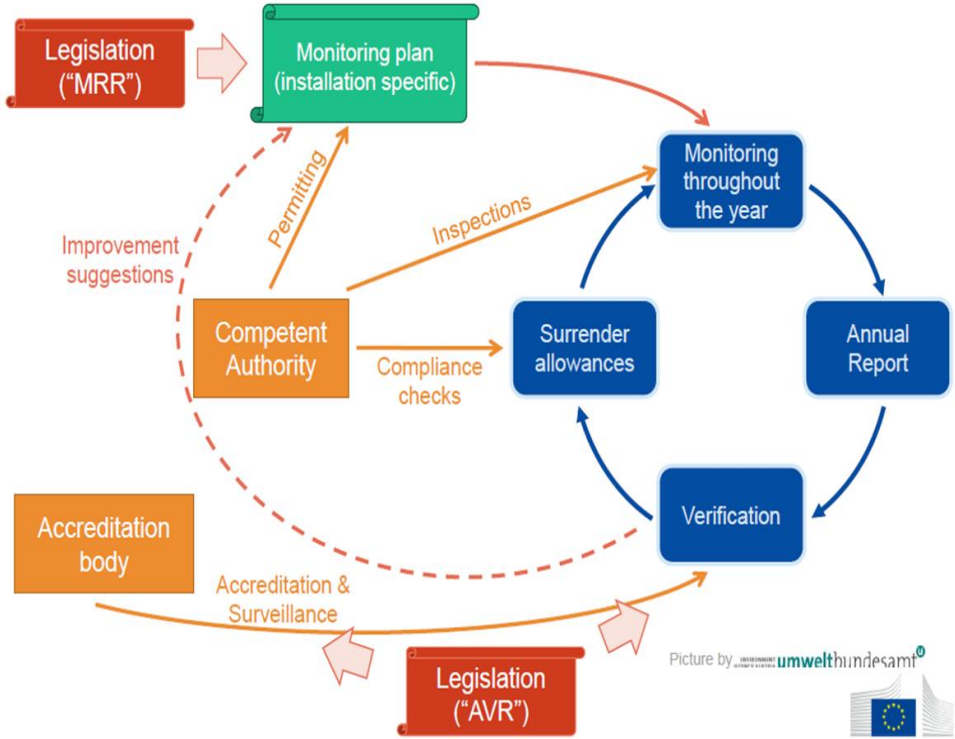
Compliance cycle



Picture by umweltbundesamt

Status of NECPs

Country	Draft NECP	Recommendations from the EnC Secretariat	Adopted final NECP
Albania	May 2021	December 2021	December 2021
Bosnia and Herzegovina	June 2023	December 2023	-
Kosovo	July 2023	December 2023	-
Montenegro	-	-	-
North Macedonia	June 2020	November 2020	May 2022
Serbia	June 2023	November 2023	July 2024

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Share of energy from renewable sources in gross final consumption of energy

	2005	2020	2030 – as agreed on the Energy Community Ministerial Council in 2022	Planned share in draft/adopted NECP
Albania	31,2%	38%	52,0%	54,4%
Bosnia and Herzegovina	34,0%	40%	43,6%	43,6%
Kosovo*	18,9%	25%	32,0%	32%
Montenegro	26,3%	33%	50,0%	
North Macedonia	17,2%	23%	38,0%	38%
Serbia	21,2%	27%	40,7%	33,6%

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Carbon emissions allowances prices - EU

Putting a price on carbon is the most cost-effective and flexible way to achieve emission reduction

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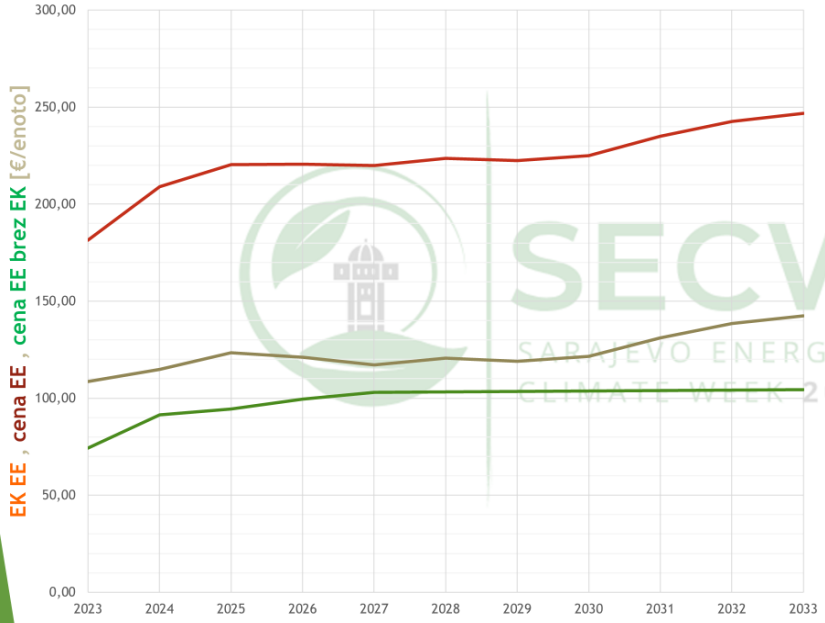
Termo power plant Šoštanj – annual loss 150 to 250 mio EUR

Cijena električne energije (EE), CO_2 kupona i uglja



Investment plan from 2012 assumed operation till 2054

Planned closing - latest 2033

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Consumption of ETS income in Slovenia (Climate Fund) for years 2022 and 2023

Measure	In mio EUR	In %
Sustainable transport	139,1	26,1
Energy efficiency in households	125,1	23,5
Energy poverty alleviation	106,8	20
Adaptation measures (floods, etc.)	44,5	8,3
Research, others	23,5	4,4
International donations	2,5	0,4
ALL	532,1	100

Carbon pricing in Western Balkans

Albania – NECP: „Carbon prices are not considered up to 2040“

Bosnia and Herzegovina – draft NECP: “Develop the necessary elements for the functioning of the ETS by 2026”

Kosovo* - draft NECP: “It does not consider the implementation of carbon pricing”

Montenegro: 24 EUR/tCO2

North Macedonia – NECP:?

Serbia – NECP:	2027	2030	2035	2040
	4	40	41	45 EUR/tCO2

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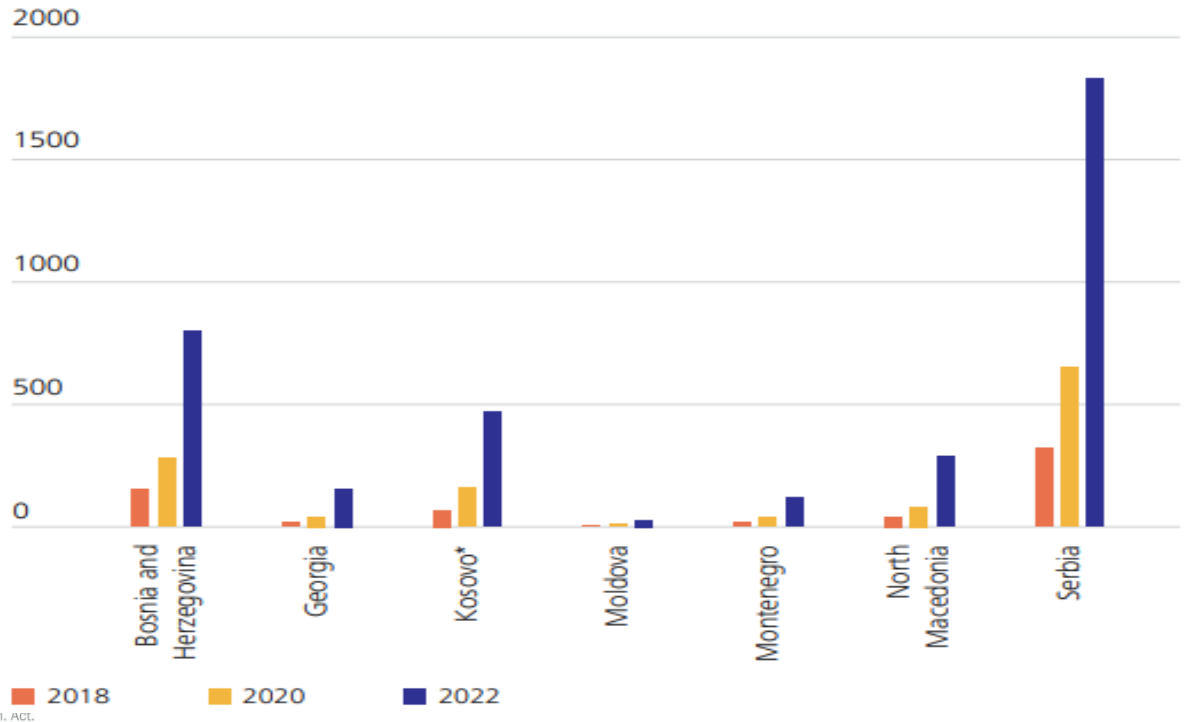
Non-paid costs for ETS by thermal power plants in WB – assumed price for ETS permit is 82 EUR/tCO2 (in mio EUR)



Source: Energy community Secretariat

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CBAM for electricity import from WB –

-The assumption that the market price is 80 EUR/MWh

	In EUR/MWh
Albania	0*
Bosnia and Herzegovina	44 (energy mix for 2023)
Kosovo	74,7* (energy mix for 2021)
Montenegro	30,5 (energy mix for 2021)
North Macedonia	31,7 (energy mix for 2021)
Serbia	50 (energy mix for 2023)

The electricity markets of Albania and Kosovo* are coupled – and should be treated together

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Sectors

- In the **first phase**:


CEMENT


IRON & STEEL


ALUMINIUM


FERTILISER

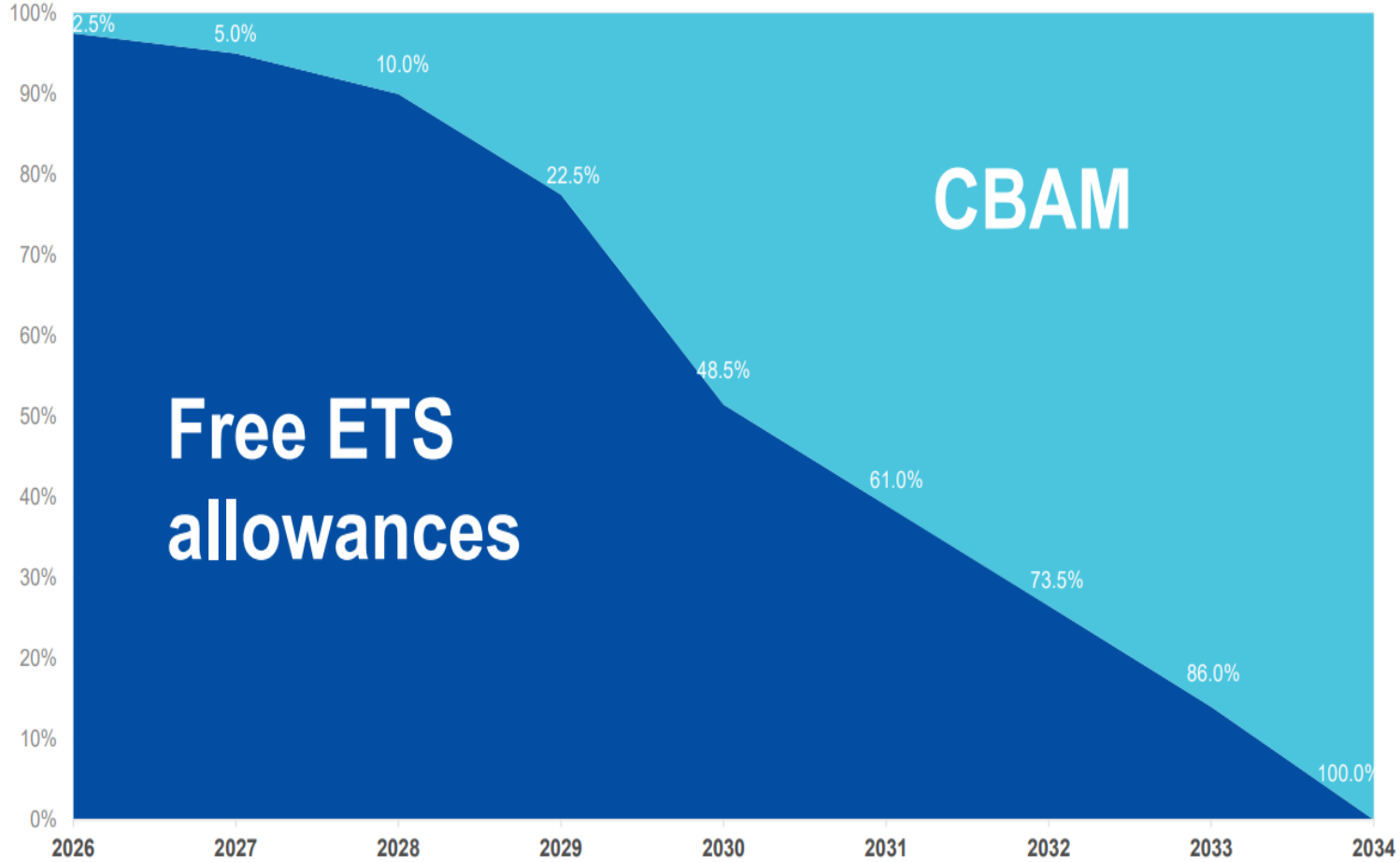

ELECTRICITY


HYDROGEN

- **Includes some precursors and downstream products**

- **Selected on the basis of 3 criteria**:
  - ✓ *High risk of carbon leakage (High carbon emissions; High level of trade)*
  - ✓ *Covering more than >45% of CO2 emissions of ETS sectors (54% of free allowances in 2021)*
  - ✓ *Practical feasibility*

- In a **second stage**, may be extended to other ETS sectors



European Commission

Scenarios of impact of CBAM on different sectors in BiH

CBAM

S 1.1. CBAM price for all industries in line with EU ETS
S 1.2. CBAM factors applied, electricity EU ETS price

There is no ETS

ETS+CBAM

S 2.1. EU ETS price for all industries
S 2.2. ETS and CBAM factors applied, electricity EU ETS price
S 2.3. ETS factors applied, CBAM price in line with EU ETS, and exemption of electricity

Two considered possibilities for all scenarios:

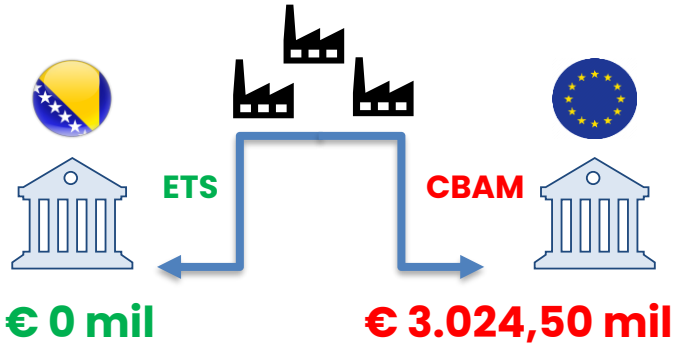
- The companies decide to take a hit on their profit without adjusting the volumes and reducing the number of employees
- The companies adjust volumes and reduce number of employees

Source: EU4Energy

Scenarios of CBAM versus ETS in BiH for the period 2026–2030 with the biggest impact

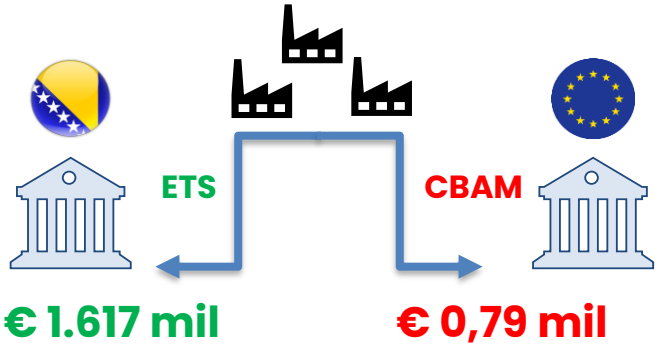
S 1.1 without adjustments

CBAM introduced, no ETS price in BiH



S 2.1 with adjustments

ETS for all industries



Source: EU4Energy

PRECONDITIONS FOR CBAM EXEMPTION FOR ELECTRICITY

	Albania	BiH	Kosovo*	Montenegro	N.Macedonia	Serbia
Market coupling with EU	-	-	-	-	-	-
-organised power exchange	+	-	+	+	+	+
-nominated market operator	+	-	+	+	+	+
-adoption of Terms, Conditions, Method.	-	-	-	-	-	-
-transposition of all Network Codes	-	-	-	-	-	-
Monitoring,Reporting, Verification of GHG	-	-	-	-	-	+
Carbon pricing established	-	-	-	+	-	-

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PRECONDITIONS FOR AN EXEMPTION OF CBAM FOR ELECTRICITY EXPORT 2

	Albania	Bosnia/Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia
2050 climate neutrality in law and strategy	-	-	-	-	-	-
Renewable energy legislation	61%	48%	70%	50%	48%	70%
Progress in climate acquis alignment	-	-	-	+	-	+
Control for carbon emissions import	-	-	-	-	-	-

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Thank you

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