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**CEZ Group reply to the discussion paper of the Federal Ministry for Economic Affairs and Energy**  
***“Electricity 2030 – Long-term trends – Tasks for the coming years”***

The Czech Republic and Germany are well interconnected, be it in terms of physical infrastructure or trade exchange. To this aim, the CEZ Group, as the biggest electricity producer in the Czech Republic and active stakeholder in the whole CEE region, would like to present its views on future trends in German energy policy as outlined in the discussion paper “Electricity 2030” of the German Federal Ministry for Economic Affairs and Energy (further as “Electricity 2030” or “discussion paper”).

The CEZ Group in general welcomes the discussion paper. We especially appreciate that the paper outlines trends and possible direction of the energy policy until 2050 already today. We deem early discussion on future development as very important, given the long-term impact the regulatory decisions have on the energy market and investment environment.

**Cost-effective energy transition**

Holistic approach to the energy transition, as outlined in the discussion paper, is very much needed to ensure the costs of decarbonisation are kept to their minimum. This specifically concerns relation between energy efficiency measures and renewables, which both lead to emissions’ reduction. From our point of view, it should be carefully analyzed, whether it is economically more efficient to reduce consumption or increase the share of renewables in the energy mix. We would like to note here that the while unit costs of additional renewable energy are more or less constant and decreasing in time, unit costs of additional EE measures are increasing because the low hanging fruit of inexpensive energy efficiency measures are exhausted first.

**Decarbonisation and EU ETS**

One of the long-term goals of the German energy policy is to significantly decrease GHG emissions. The CEZ Group believes that a fully functioning EU ETS system is the most efficient and at the same time market-based way to decrease emissions, not distorting the internal market by additional national measures. EU ETS with strong carbon price will effectively direct investment into low-carbon technologies with the



most added value at the lowest cost. We are of an opinion that to allow the EU ETS to be fully effective, less stringent and more market-driven rules for power plants decommissioning are needed. Overlaps between respective energy policies also need to be addressed – i.e. savings in energy consumption leading to CO<sub>2</sub> reduction should be reflected in the total amount of allowances in the system, in order to avoid continuing overcapacity in the EU ETS.

### **Making the system more flexible**

Electricity 2030 anticipates increase in the share of emission-free electricity in the overall energy mix. This is from our point of view a viable way of decarbonizing the whole economy. Together with this, the discussion paper outlined further expansion of new technologies, such as heat pumps or electric vehicles, as well as development of new services, i.e. demand side response, aggregators or electricity storage.

Electricity system with a high share of renewables undoubtedly needs to become more flexible and above mentioned technologies and services may contribute to this goal. We believe that the change should be market-driven rather than subsidy-driven. The price of electricity on the wholesale market should be a decisive element for investors. New policies should be carefully designed in order not to have distorting effect on the electricity market. This is even more important due to the interconnectedness of the power systems in our region and the common goal of the integrated European electricity market. Nevertheless, should new technologies be subsidized, we believe the scheme ought to be opened to neighboring states as well, to ensure the highest efficiency of electricity generation at the lowest cost.

Deployment of smart meters and introduction of real-time pricing may help to better align small electricity generation and electricity market. This will also ensure cost efficiency as the prosumers could themselves decide whether it is for them more favorable to insert electricity in the grid and decrease their consumption, or vice versa.

### **Further strengthening electricity grids**

Expansion of power grids, both on distribution and transmission level is crucial for the proper functioning of the electricity market on national, regional and European level, as well as to make the electricity system more flexible. In Germany, this is even more important given the structure of economy and energy sector (consumption centers in the South and most of the generation installed in the North). Due to this, we would also like to note that the demand side response, storage or other services are probably not sufficient to balance the system in respective regions sufficiently to avoid further grid expansion.

Similarly, grid development from our point of view cannot be replaced by increased use of re-dispatch measures. Recent development in re-dispatch cost – increase by



more than 2.5 times between 2014 and 2015 and consequent increase in grid fees – showed that it poses no cost-efficient alternative to power lines built-up. Further grid expansion should therefore form an inseparable part of the energy transition. The federal government should continue in and even intensify the dialogue with citizens, explaining them inevitability of network development for the secure and cost-effective electricity supplies.

### **European market integration**

The CEZ Group has always supported and still supports the initial intention of the European Commission to create the EU internal electricity market. The more interconnected respective regional markets are, the more convergent the price of electricity is and the bigger the benefits to customers. In this connection, we find extremely important to note that for successful market coupling, designs of respective markets need to be compatible. Mutual compatibility of respective models is also a prerequisite for integration of short-term markets, which the CEZ Group fully supports. Any new measures introduced at national level should therefore be carefully analyzed and consulted with affected countries so that they do not have distorting effect on neighboring energy markets and consequently on the European electricity market integration.

### **Security of electricity supply**

We expressly support the development of more regional approaches to security of electricity supply. In this context we support suggested assessment of generation adequacy as well as system security in a regional context. Having in mind planned coupling of 4M MC and MRC, we believe it would be useful to include countries of both regions in the assessment. Assessment should clearly state the contribution of neighboring countries to security of electricity supplies in Germany.