

Energy Community Secretariat

The Wachau Manifesto¹

Just as the rest of the world, Europe is in the middle of the most profound energy transition of the last hundred years. The **key driver of this transition is decarbonization of our economies and life-styles**, with a focus on the energy sectors as major emitters of greenhouse gas emissions. The energy transition has been incorporated in international and European energy policy and law. It is irreversible. There is no doubt that the Contracting Parties of the Energy Community, signatories of the Paris Agreement and aspirants for EU accession will be increasingly affected by it in the imminent future. Yet the energy sectors of these countries seem to be insufficiently prepared.

In fact, the great energy transition hits the Contracting Parties at a time when the Energy Community has **not yet completed its first energy transition, the one it was originally designed for**. It was meant to be a transition from state-controlled energy sectors in each Contracting Party to open and regionally integrated energy markets. We have come half way, with most markets still being widely foreclosed, overregulated and distorted, and the potential of regional integration only marginally used. In order to be on the winning side of the second, the great energy transition, we need to multiply our efforts to catch up on the delays. It is clearer than ever before that the energy sector design we have tried to preserve despite all legal and political commitments taken over the last ten years will not survive the great energy transition.

The **Energy Community's second energy transition started on 1 January 2018 at the latest**. While the European Union was busy fixing its emission trading scheme and discussing the clean energy package, in the Energy Community the Large Combustion Plants Directive (for SO₂, NO_x and dust emissions from existing power plants) and the Industrial Emissions Directive (for the same emissions from new power plants) entered into effect. In many Contracting Parties, this **date marks the beginning of the end of the coal and lignite era**. Existing coal-fired power plants can only be operated for a transitional period, and new ones can only be built in compliance with highest European standards, and often only at the cost of non-compliant State aid distorting the markets. Without even discussing the uncertainties of future carbon pricing, coal and lignite have become highly problematic natural resources. This is reflected in an increasing practice by international banks to not finance coal-fired generation, and insurance company's practice not to insure them anymore.

With one traditional natural resource turned toxic, the great energy transition opens the view to the Contracting Parties' other natural resource, renewable energy. The Energy Community has still the greatest untapped potential for the fuel of the great energy transition, a treasure barely exploited yet. With a lack of general commitment and not always smartly designed support, many Contracting Parties will not reach their binding targets for 2020 and new, more ambitious targets for 2030. **Implementation of existing Energy Community acquis is crucial first step towards the great energy transition:**

- We are convinced that there is no point in Contracting Parties replicating the mistakes of renewable support schemes in many EU Member States. The technology costs have been dropping significantly over the last years, and there is sufficient positive experience with competitive schemes such as auctions all over the globe to suggest that also the Energy

¹ This document expresses the views of the Energy Community Secretariat only.

Community Contracting Parties can obtain a maximum of renewable energy at lowest possible prices.

- Current subsidies of coal-related activities in many Contracting Parties, usually not presented transparently, need to be assessed against the State aid criteria, and transferred into support for a sustainable energy transition.
- Still, the price of our unfinished first energy transition will translate in costs above the optimum. The high country risk of Contracting Parties, for instance, is reflected in higher than necessary capital costs.
- The lack of cross-border integration and organized day-ahead and intraday markets are clear handicaps. And delayed price reforms and investments in the reinforcement of (distribution) networks and the reduction of losses come at a cost as well. Yet the negligence of the past cannot justify inertia in the view of the great energy transition. Quite the contrary.

One of the most pertinent and at the same time difficult technical questions to answer is **how to provide the necessary back-up energy to balance an increased share of intermittent renewable energy, and thus securing supply** especially in winter times. There is no one-size-fits all answer to the problem, and each of the options requires sound analysis.

- For some Contracting Parties, more gas-fired electricity generation (or gasification) may be an answer. We should be careful, however, to not encourage stranded costs for infrastructure and installations.
- Biomass could play a bigger role also in electricity generation, but should be accompanied by sustainable forestry.
- Hydropower may sound obvious in certain Contracting Parties, but should not be installed at the cost of environmental protection.
- In our view, a no-regret solution is stepping up efforts in better regional market integration.
- Beyond what has been explored and partially implemented so far, the Secretariat will explore possibilities for regional capacity mechanisms, ensuring security of supply without distorting the energy markets.

We know from past experience that the most important change required is a change in mindset. The Energy Community and its Contracting Parties need to embrace the energy transition, and not fight it. This requires **being open to and proactive in searching for alternatives to coal on the legislative, financial and technical field**. It also requires a new spirit of cross-border cooperation, and eventual harmonization within the Energy Community and with the European Union.

- This spirit would require an open attitude to the 2030 targets – in particular an overall GHG emission reduction target – discussed in the Energy and Climate Committee, and a close and result-oriented cooperation within countries and across borders in the work related to integrated energy and climate planning. The targets agreed should inform a coordinated approach for the revision of NDCs under the Paris Agreement.
- The open question of carbon pricing creates uncertainty and should be discussed proactively rather than being dodged.
- We also invite the European Commission to propose the Clean Energy for All Europeans Package for incorporation in the Energy Community immediately after its adoption in the European Union.
- In the spirit of the Energy Union, Contracting Parties of the Energy should be closely and from the outset involved in European initiatives such as the Coal Regions in Transition platform,

- statistical transfers of renewable energy quotas between Contracting Parties and Member States.
- Contracting Parties should be supported by the European Union in future instruments establishing de-risking facilities. They cannot fully tap renewable potential in the region without such assistance.

The Contracting Parties have the potential to come out as winners of their second energy transition. It requires open minds in the Energy Community and the European Union to make use of that potential rather than trying to protect the status quo. Contracting Parties should adopt and implement the necessary laws and by-laws needed for coordinated energy and climate policies, renewables auctions and smart support schemes as well as further reforms aimed at more liquid energy markets. Climate change, empowering consumers and the great energy transition are matters which tolerate no further delay. Together with old and new partners from authorities, donors and civil society, the Energy Community Secretariat will do its utmost to guide and support the process.