While it may seem like a gesture to coal-dependent countries such as Poland, the Winter Package of EU energy market rules, presented yesterday, will make using coal subsidies more difficult, writes Izabela Zygmunt.

Izabela Zygmunt is national campaigner for Poland at CEE Bankwatch, a network of grassroots, environmental groups in Central and Eastern Europe monitoring the activities of international financial institutions.

The European Commission presented its Winter Package of energy regulation. Touted as ‘transformational’ and ‘impressive’, the proposed new rules have not impressed everyone, though.

The main critique concerns the lack of ambition of the renewables target and the absence of binding national targets. Commentators also slammed the unambitious energy efficiency objective of just 30% to 2030, and the failure to completely eliminate food crop biofuels from the EU’s energy mix.

But the most important criticism concerns the fact that the Commission’s proposal can be interpreted as leaving the door open to hidden coal subsidies by permitting member states to use capacity mechanisms – that is, payments to energy companies that would otherwise be unprofitable but are needed as providers of reserve capacity, and does not prevent the money from going to coal plants.

Despite the rhetoric on phasing out fossil fuels, the 550 grams of CO_2 per kilowatt hour cap which supposedly rules out the participation of coal power plants, only applies to new units. This is a serious shortcoming of the new package, which means that existing coal power plants may potentially still benefit from subsidies under the capacity mechanisms.

The presence of capacity mechanisms, combined with the weaker than expected provisions on consumers’ access to the market, has led Luxemburgish Greens MEP Claude Turmes to call the Winter Package a ‘gift to Poland’.

Indeed, Poland’s projected capacity market, which the country has been negotiating with the Commission, is designed around giving money to coal-fired power plants to keep their operation profitable and encourage investment in retrofits of old 200 megawatt units to ensure that sufficient capacity is available in the future.

”Don’t look a gift horse in the mouth,”, as the saying goes, but if one nonetheless looks into the details of the Commission’s proposal, it is in fact less of a boon to the Polish government and the country’s coal-addicted big energy companies than it might seem at first glance.

Warsaw planned to implement a scheme similar to the British capacity market recently approved by the Commission and based on auctions for capacity providers. The main sticking point in the negotiations concerns opening the scheme to providers from outside

Poland, as the Commission would not approve a scheme addressed exclusively to Polish providers. Commenting on that, the Polish minister for energy said that Poland's neighbours would also be able to benefit from the capacity reserves offered by the Polish utilities. Except, that is not what the Commission meant, as the new rules unveiled yesterday show all too clearly.

Under the new capacity mechanism legislation, any such scheme would have to be open to capacity providers from other countries and would have to be based on competitive price setting, with the money going to the lowest bidder.

Moreover, it would also have to be open to providers of energy storage and the so-called demand side response, i.e. companies willing to reduce their energy consumption in periods of peak demand.

Importantly, the introduction of any capacity mechanisms would have to be preceded by regional generation adequacy assessments to see if there is actually any need for them in the first place. And finally, before implementing them countries would have to first address the market failures causing the capacity shortage.

In the case of Poland, that might mean having to reconsider the recent legislation on wind farms, which effectively stopped new investments into onshore wind. Warsaw might also need to revisit the rules on so-called prosumers. This recent law replaced feed-in tariffs with auctions set up in a way that favours biogas installations and co-firing of coal and biomass, making investments in prosumer solar power too risky for most people.

Then, Poland would have to undergo a regional adequacy assessment to determine if any short-term or long-term capacity shortages still exist and if they can be resolved through better regional grid interconnections.

Only then would Polish authorities be able to introduce a capacity market. But such scheme cannot be designed as a direct subsidy to selected power plants. Rather, it would have to be competitive and open to capacity providers from neighbouring countries as well as operators providing demand-side response and energy storage.

In the press conference on Wednesday, where they presented the Winter Package, commissioners Miguel Arias Cañete and Maroš Šefčovič strongly emphasised the big role for cross-border trade in electricity and a more interconnected market. Šefčovič said the new rules were intended to promote "regional solutions, and not solutions within national borders."

Cañete echoed that by saying that solidarity and regional links between EU members were very important in addressing capacity shortages and that capacity mechanisms could only be deployed in "exceptional situations."

Asked about the still-open possibility of capacity subsidies going to coal, he said he believed that the growing competitiveness of wind and solar would solve the problem, while Šefčovič said he was certain that price signals would “stimulate modernising investments”.
If that is the logic behind the new rules, it will be very difficult for Poland to channel money into retrofits of old coal power plants and investments in new coal-fired units, even if, unfortunately, a backdoor for coal subsidies still remains at least half-open under the proposed new legislation.
It is probably less of a gift and more of false comfort, a provision that the Polish leaders will likely cling to in order to keep making promises to coal miners and the big energy companies – promises on which they will simply not be able to deliver.
An explicit ‘no’ to any further subsidies for coal would be a much more valuable gift. It would make the situation clearer, and, hopefully, push the Polish government to rethink its coal-centric energy policy that cannot be sustained in the long term anyway.
Poland is already lagging behind Europe’s energy transition, and the sooner it changes course, the better for its citizens, businesses, and general competitiveness, not to mention the environment and climate.
The Winter Package will now be reviewed, potentially modified and adopted by the European Parliament and the EU Council. It is up to MEPs and the ministers on the Council to make sure the new legislation emerges from the process without any backdoors for coal subsidies, which send a misleading signal and have no place in any post-Paris energy policy.
source: euraktiv.com