4th Meeting - Energy and Climate Technical Working Group

Vienna, 21 November 2019

MINUTES

OPENING

This was the fourth meeting of the Energy Community Technical Working Group (TWG) on Energy and Climate. The **Energy Community Secretariat** welcomed participants, recalling the growing importance of climate topics in the work of the Energy Community, the finalization of the study on 2030 targets and the progress made by Contracting Parties in preparation of National Energy and Climate Plans (NECPs) and other planning documents.

PART I - 2030 TARGETS FOR THE ENERGY COMMUNITY – RECENT DEVELOPMENTS

The **European Commission** announced a new timeframe for setting 2030 targets on energy efficiency, renewables and greenhouse gas emission reduction for the Contracting Parties of the Energy Community. The Commission reiterated the message from the PHLG meeting in September that the external study launched by the Energy Community Secretariat to identify, if possible, a methodology for setting three 2030 energy and climate targets, provided a useful basis for discussions. However, after thorough assessment of the results, it has been decided that drawing straightforward conclusions and proposing unequivocal 2030 targets for the Energy Community and its Contracting Parties, based solely on the study, would significantly challenge the robustness and credibility of the process, which are fundamental features of the policymaking in the EU. The Commission informed that it secured the necessary funding to extend the modelling capacities of the EU to the Contracting Parties. A Terms of Reference will be shared with Contracting Parties and the Secretariat before the launch of the tendering procedure planned in December 2019/January 2020, in order to consult the Contracting Parties. The study will most likely offer country visits by modeller teams to consult on other national analytical activities. The analytical work should be carried out by the end of 2020; based on these results, new targets are expected to be adopted by mid-2021.

It was underlined that current progress on developing NECPs should continue and will be supported by the European Commission and the Energy Community Secretariat. In order to have sufficient guidance on future work, new policy guidelines should possibly be endorsed at the next Ministerial Council. Subject to endorsement in the December European Council of the climate neutrality objective by 2050, Commission proposes a political commitment by the Ministerial Council on a long-term vision for the Energy Community to aim at achieving a climate-neutral Energy Community in line with EU decarbonisation ambition.

Kosovo*[1] welcomed the extension of the modelling capacities, however expressed also concerns due to the fact that Contracting Parties cannot move ahead with the same speed and level of ambition of Member States, due to economic differences and capabilities. Therefore, national circumstances and limitations should be better explored, along with energy security, affordability, social and economic

*[1] 1 This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence

aspects. **Ukraine** raised questions on the EU 2050 climate neutrality target, on the proposed modelling tool for the Energy Community (will it be a multiregional model or a one-region model? How will transparency and access to data be ensured by the Commission?) and on the discrepancies between the timeframe indicated by the Energy Community guidance and NECP recommendation and the new timeline announced by the European Commission. **Bosnia & Herzegovina** explained that it plans to adopt national targets as soon as possible and that the NEAP was developed based on LEAP, since it is the modelling tool used within the country. **Serbia** finished one energy project and is currently securing additional funding to develop NECPs, including national targets. This will be a 2-year exercise, however, after the first year, possible targets will be already defined through TIMES. Serbia raised concerns not only on launching two parallel processes - one lead by the Commission and one by Serbia - but also on the different timeframe. **Montenegro** also called for process coordination, welcomed the additional support on modelling and raised the possibility to comment on the Terms of Reference of the Commission's modelling extension. It informed the TWG that the country has already started the preparation of the NECP and is progressing well. **Georgia** reminded the TWG that Contracting Parties have to adopt NDCs, NECPs and LTS; processes and documents need to be aligned with each other.

The **European Commission** and the **Secretariat** reiterated that also EU MSs started working on NECPs preparation before EU targets were actually adopted; plans were adjusted after new data were made available. The same process can be followed by Contracting Parties. Furthermore, NECPs are a complex exercise, with not only targets, but also baseline data and Policies and Measures (PaMs); there is enough work to be completed until the extension of the modelling capacities will be finished. No targets are expected for the Ministerial Council 2020, only the discussion on the analytical ground. Based upon that, political decision on the targets and legislation will have to be made by the Ministerial Council in the first half of 2021 once the extended and comprehensive modelling capacity for the nine Contracting Parties is completed by the European Commission

PART II – NATIONAL ENERGY AND CLIMATE PLANS – PROGRESS AND CONSOLIDATION OF PLANNING PROCESSES

The **European Commission** provided an overview of the EU processes on NECPs. All MSs adopted draft NECPs by the end of 2018 which were assessed by the Commission to improve and align them to EU targets and legislation. The Governance Regulation introduced a new bottom-up approach, however there is still a gap between national and EU targets. The Commission's review focused also on PaMs, to check if they support the targets properly and there are interactions between policies and financial support. The plans have to cover 5 dimensions, however the Commission asked MSs to include also information on just transition, investment needs, air quality, energy subsidies, and regional cooperation. Furthermore, NECPs should also look towards 2050 and be aligned with long-term strategies.

North-Macedonia, Montenegro, Albania and Bosnia and Herzegovina summarized their activities under NECP planning. **North-Macedonia** adopted a strategy for energy development up to 2040, based on the EnC study on 2030 targets, including 3 different scenarios (reference, moderate, green). The country plans to deliver the draft NECP by May/June 2020. **Montenegro** explained that the legal basis is currently missing for further work on the plans at national level, therefore the government plans to amend the energy law to include the obligation of developing the NECP. Furthermore, the law on negative effects of climate change has been sent to the parliament for adoption in November. Montenegro also plans to incorporate the energy strategy in the NECP by next year as well as consolidate and streamline all related reporting requirements, e.g. the low carbon development strategy. **Albania** transposed a number of laws this year; also, the strategy on energy up to 2030, the

strategy for national resources and the mitigation strategy up to 2030 have been adopted, forming the basis for the NECP. Nevertheless, legislation on LULUCF and effort sharing is still missing and the climate law has still to be adopted to support further work on NECP. The working group for NECP has been set up including several relevant national energy and climate stakeholders. **Bosnia and Herzegovina** also formalized NECP working groups that met already a number of times and produced a mapping of relevant stakeholders. By the end of the year, the first draft NECP and policy and stakeholder mapping should be completed. NECP preparation leverages on the use of LEAP and is assisted by GIZ ORF-EE, providing technical assistance, and UNDP.

The Energy Community Secretariat provided an outlook towards 2050 for the preparation of long-term strategies and explained the requirements of the different planning processes for 2030 and 2050, along with the proposed next steps for the year 2020.

The NewClimate Institute presented how the timing of NDCs, NECPs and LTSs can be aligned and all outputs produced efficiently from one process by 2020. The Institute published a paper, prepared in cooperation with the Energy Community Secretariat and GIZ, which shows how this can be done in practice and how, for example, the updated NDC can be derived directly from the decarbonisation component of the National Energy and Climate Plan (NECP).

The **International Atomic Energy Agency (IAEA)** presented their two-year project, starting in January 2020, on capacity building options for modelling and planning of sustainable energy strategies. IAEA offers their own set of tools free of charge for their Member States and can support individual requests of training for CPs on the analysis of energy supply and demand in relation to NECP preparation. Collaboration among IAEA and EnC focal points can be foreseen as well as participation of the Energy Community Secretariat to the official project kick-off in February 2020.

PART III – NDC REVISION 2020

The **European Commission** presented the EU perspective of the NDC revision. It was explained that the current level of ambition of the NDCs fall short of the targets of the Paris Agreement. Also, CION presented the general outlines of the European Green Deal which plans to enshrine the goal of climate neutrality by 2050 into legislation through the drafting and adoption of a climate law. A climate law will peg the EU's economic future to a low carbon model. In order to reach climate neutrality by 2050 it is necessary to increase our medium term ambition. Presently our emission reduction target for 2030 is 40 %. It is the Commission's ambition to increase this target to 50 % and even 55 %, provided it can be done responsibly. Finally, it was underlined that the EU has a clear mandate from EU citizens to move forward with the Green Deal.

The **COP24 Presidency** explained nature and goals of the NDCs as well as what requirements have to be met when preparing them. For the first NDC revision, all Parties are encouraged to apply information to facilitate clarity, transparency and understanding (ICTU), while for the submission of future revisions, ICTU requirements will become compulsory. Ukraine asked whether it's possible for countries to propose two different targets within their NDCs. It was explained that there is no international requirement to have only one target, however the conditional target needs to be more ambitious than the unconditional one and progress made against the targets have to be trackable.

The **UNFCCC** presented a technical perspective to the NDCs. The updated NDC should be communicated by 2020, enhanced every 5 years by leveraging on two feedback mechanisms to raise ambition. The UNFCCC explained also the relation between NDCs, the Global Stocktake and the

Enhanced Transparency Framework as well as the upcoming submission of long-term strategies. **Georgia** inquired on how to report on tracking progress; according to the UNFCCC, more clarity on this will be provided by the end of next year, along with specific regional trainings for experts.

The **Special Envoy on Climate of Poland (COP24)** highlighted how to ensure that transition plans are also just, maximising opportunities and at the same time sharing them among the Parties. The EU proposed a *Just Transition Fund* to support regions affected the most by the energy transition. Also, last September 2019, a new initiative was launched under the name 'Coal regions in transition and the Energy Community', at the College of Europe in Natolin (Warsaw), whose practical continuation is still to be decided, although the Commission attaches high priority to it. The Commission underlined that the EU-Western Balkans Summit in 2020 is expected to officially endorse such initiative.

PART IV – TOWARDS EFFECTIVE DECARBONIZATION

The **Energy Community Secretariat** introduced a new study on carbon pricing that aims at designing a cost-effective and socially acceptable carbon pricing mechanism to decarbonize the electricity sector of the Energy Community. Hopefully a transitory carbon pricing mechanism will prepare CPs for joining the EU ETS in the future and provide solutions for a fair and targeted carbon revenues reallocation. The open call was published online already in October, selection is ongoing and the project will be launched in December 2019. There will be at least 3 main scenarios assessed: national carbon pricing; regional harmonization for the future transition to the EU ETS; and a combination of the EU carbon trading and free allowances. The study will assume subsidies to be phased out, assess the adequacy of MRV and the requirements for the electricity sector. Results should be finalised by August 2020 and two workshops to discuss the interim findings are foreseen, the first one planned by spring 2020.

The **Western Balkan Green Centre** outlined the green finance concept, the state of play in the Western Balkans and the efforts made so far by the Centre, which was set up to give technical assistance and capacity building in the WB6 through grants. It was underlined how impact assessment and green bond issuance has been on the raise in the last years. The Centre has already funded around 60 projects in water management and spatial planning, however other sectors (transportation, agriculture, adaptation, etc.) need further finance. The next call for proposals will be opened in Q1 2020.

The World Resources Institute introduced the Energy Policy Simulator, a free, open-source computer model that can visualize policies' effects on emissions, cash flows, power plants, electric vehicles, and more. The model has two dimensions: equations defining variables; data arrays/matrices. It was already used in some countries to develop low-cost climate policies (Mexico, US, Poland, China, etc.) and has a user-friendly web interface with real-time modelling.

The **European Climate Foundation** presented the results of a new project on accelerated coal exit in Eastern Europe. The aim is to asses if: i) it is feasible to phase-out coal, ii) how much it will cost and iii) what are the economic and social benefits. The project was complemented by a modelling (up to 2030) of the early exit of coal and the cost of just transition. It was concluded that with higher renewables penetration and internalization of air pollution costs, the price shocks can be levelled out; early retirement can cut losses and even without artificially accelerated exit strategies, phase-out of coal will be inevitable. The study does not include however RES benefits, reduced external costs, reforestation, repurposing affected mines and TPPs, and compensation of existing PPAs. The final study will be published in early 2020.