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Position Paper

On the assessment of the EU framework for the security of energy supply

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The German Association of Energy and Water Industries (BDEW), Berlin, and its regional organisations represent more than 2,000 companies. The spectrum of members ranges from local and municipal to regional and supra-regional companies. They represent around 90 per cent of electricity sales, a good 60 per cent of local and district heating sales, over 90 per cent of natural gas sales, over 95 per cent of energy networks, 80 per cent of drinking water production and around a third of wastewater disposal in Germany.

BDEW is entered in the lobby register for lobbying the German Bundestag and the German Federal Government as well as in the European transparency register for lobbying the EU institutions. In addition to the recognised Code of Conduct pursuant to Section 5 (3) sentence 1 LobbyRG and the Code of Conduct pursuant to the Register of Interest Representatives (europa.eu), BDEW's representation of interests is also based on the BDEW internal compliance guideline in the interests of professional and transparent activities. National register entry: R000888. European register entry: 20457441380-38

General position on the EU architecture and legal framework for energy security

In September, the European Commission launched a public consultation and an open call for feedback on the evaluation of EU-wide legislation on the security of energy supply. The focus is on assessing the effectiveness, efficiency, coherence, relevance and EU-wide added value of existing regulations for the security, resilience and autonomy of the energy system.

BDEW welcomes the fact that the Commission is dealing with both the evaluation of the EU legal framework for energy security and the outlook on relevant future developments at an early stage and opens up the space for a broad consideration. It is crucial to think about security of supply across the boundaries of energy sources and their developments as well as other objectives. Doing so, the objectives should be consistent with other regulations but should not be mixed up with each other.

It should be noted that the EU's energy security architecture and regulatory framework have proven to be sound and efficient. In order to improve security of supply, these provide for increased prevention and better preparation for the management of possible crises at the level of energy companies, member states, regions and the EU, as well as the protection of certain population groups. This approach is based on the Gas Security of Supply Regulation, which was created and developed based on the lessons learned from various supply crises in the past. Gradual adjustments will be necessary in the future, which should be implemented sequentially – in line with the changing supply situations in the course of the transformation.

Energy security within their respective areas of activity and competence is the shared responsibility of energy companies, Member States, the competent authorities of the Member States and the Commission. This three-stage community mechanism – 1. energy companies, 2. Member States, 3. in an emergency the EU – has proven itself and should continue to be strengthened.

This applies as much to the principle of maintaining market mechanisms for as long as possible as it does to the principle of using state intervention only as an ultima ratio.

The aim is to ensure a secure supply of energy at affordable prices, both now and in the future. Different objectives, such as a politically desired price level and ensuring security of supply, have to be kept separate. Good preparedness does not come for free. At the same time, however, precautions also help to cushion price peaks in crisis situations.

In an acute crisis, prices are an important control instrument. This must not be hindered by interventions in the free formation of prices. In situations of scarcity, rising prices have a stabilising effect by creating an incentive to reduce consumption, helping to delay or even avoid the need for state intervention.

Energy companies have substantially contributed to the successful establishment of a new foundation for energy supply in Germany and Europe after the outbreak of the Russian war of aggression against Ukraine in 2022. In a short period of time, supply relationships with new supplier countries were established, agreements with other supplier countries were expanded, and LNG terminals and the necessary connecting pipelines were built in record time. The European internal energy market has also played a crucial role in this regard.

Gas storages are an important element of security of supply. However, the EU Gas Storage Regulation has introduced overly complex and inflexible requirements for minimum filling levels and, in particular, filling paths, as well as the certification of gas storage operators.

Electricity grids also play a crucial role in European energy security, as they ensure the continuous and reliable transmission of electricity across national borders and make a significant contribution to the integration of renewable energies. Through strong interconnection, energy surpluses in one region can be used to compensate for deficits in another, thus increasing the stability of the entire European electricity system. In addition, well-developed electricity grids promote energy trade between member states, which reduces the dependence on a small number of energy import sources. Investments in electricity infrastructure are therefore essential to ensure a sustainable and resilient energy supply. They increase the flexibility and adaptability of the energy system, which is particularly important in times of crisis, such as geopolitical tensions or natural disasters.

In Germany, the Power Plant Safety Act is currently taking an important step towards transforming the energy supply and ensuring the long-term security of the electricity supply and system. In Germany, this includes, in addition to the tenders for biomethane peak load plants originally planned in the power plant strategy, above all Combined Heat and Power (CHP) plants. A European framework is also needed for the highly efficient provision of electricity and heat, as it is for a capacity market.

Furthermore, a common, clear strategic outlook and realistic gas demand scenarios are needed, together with a reliable commitment to natural gas/LNG, so that European importers are recognised as long-term partners. This is crucial for importers to be able to conclude long-term supply contracts. If targets are constantly being changed, only short-term and thus often unattractive deliveries can be agreed. Uncertainty in gas demand leads to competitive disadvantages on the global market and higher risk premiums.

The Commission's questionnaire is generally vague with regard to the future period under consideration. When evaluating the answers, it must be taken into account that developments such as sector coupling, decarbonisation and the ramp-up of the hydrogen market extend

over a long period of time and proceed in phases. These developments must therefore also be incorporated into the EU energy security framework step by step.

In the course of the transformation, the supply situation will become more decentralised. Import dependency remains, even with a decline in natural gas consumption and in parallel with the hydrogen ramp-up. In addition, seasonality increases: the relative share of heat in the natural gas market increases when industry is transformed towards hydrogen. With the increasing share of renewable energies in the electricity grid and the ongoing electrification of other sectors, the demand for flexibilities is also increasing. These flexibilities ensure the electricity supply when the sun is not shining, and the wind is not blowing. In addition to hydrogen-capable gas-fired power plants, hydrogen storage also has an important role to play here: excess electricity is converted into hydrogen by means of electrolysis, stored temporarily, and can be used again to generate electricity when needed.

This underlines the fact that the EU should set the framework, define minimum requirements for member states and monitor compliance, but leave the detailed design and legal implementation to the member states.