

# EnBW commentary on the EU TEG Taxonomy Call for Feedback

Sept 18, 2019

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Compiled by Thomas Kusterer, Dr. Lothar Rieth

Note: The key points were also submitted via the official consultation procedure on the EU website.

## 1. Introduction - Sustainable Finance and transformation of the (financial) economy and the importance of transforming in particular the energy sector

We support the European Union (EU) to achieve the goals of the Paris Agreement (COP21) and the UN Agenda 2030 for Sustainable Development Goals (SDGs).

We share the argument that in order to achieve the EU targets for 2030, such as a 40% reduction in greenhouse gas emissions, and especially regarding the 2050 targets, **it is necessary to channel significantly more private investment into sustainable economic activities**. The financial sector and the real economy play a key role in closing this investment gap.

With regard to a central building block, the successful transformation of the energy system, **a high capital stock is required**, which also asks for new sources of financing - **in particular for the realisation of large-volume investment projects in the field of energy generation and network infrastructure**.

To encourage such investments, **the European Union needs to send clear and long-term signals for the mobilisation of sustainable financial resources**. As we expect to gradually achieve a climate-neutral economy in the coming decades, it is necessary to ensure not only the competitiveness of the European economy but also the social justice within and security of energy supply for Europe's population.

The proposal for a uniform EU classification system (taxonomy) for the qualification of green (and ultimately sustainable) economic activities is a central building block of the European Action Plan for Financing Sustainable Growth, thereby supporting the overarching idea of Sustainable Finance.

We support the approach that, as a first step, **the focus should be on those economic activities that make a substantial and forward-looking contribution to reducing the negative impact on climate change and adapting to it**. It is crucial that the specific technical screening criteria also recognise and promote the investments necessary for the **transformation path**.

For the transformation of the energy sector, it is particularly **necessary to recognise technical and economic feasibilities and system requirements, which will change over time, without provoking lock-in effects** at the same time. This requires an intensive, thorough and transparent exchange of views with key stakeholders, including industry experts. In this process, **the greatest possible consistency with sector-specific policies and requirements should be ensured**. While understanding the urgency of the project, sound criteria should precede speed. In this context, **a balanced composition of the future expert platform is key and would help to ensure a high degree of acceptance of the EU taxonomy**.

## 2. General cornerstones for a targeted implementation of the taxonomy

We consider it essential for the successful implementation of the taxonomy that **all technologies should be taken into account which can contribute to the success of the energy system transformation in the short, medium and long term**.

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Even though the proposal focusses on promoting renewable energies, for reasons of efficiency and technical and economic feasibility, **a technology-neutral approach must be applied in the coming years in order to ensure a cost-efficient investment framework.**

At present, some of the technologies that will be successful and effective in the future have not yet been defined or are not yet sufficiently economically deployable. Therefore, **it is crucial for the acceptance of the taxonomy that the necessary transformation process not only includes investments in technologies and activities corresponding to the 2050 stage, but also supports intermediate steps.** This should also include substantial energy efficiency measures, e.g. with regard to CHP plants.

In principle, we support the statement that lock-in effects must be avoided in this context. **The future qualification and further development of every technology for climate neutrality is decisive.**

It is also important to keep the practicable application in mind. For example, **for products or infrastructure the criteria should focus on the production process or future potential use and not on actual concrete use, since this is not always known in advance** (e.g. use of vehicles for freight transport services) or cannot be influenced by the producing or managing companies themselves (e.g. electricity and gas infrastructure: in the taxonomy there is now sufficient consideration in the formulation of electricity grids, while this is not the case with gas pipelines).

**The taxonomy should primarily not be an instrument for the valuation of companies, but should focus instead on economic activities.** Should the taxonomy nevertheless be applied at company level in the future (see further development in the Guidelines on reporting climate-related information), the key parameter should focus on the proportionate percentage of the investments in assets or services for activities or EBITDA generated with sustainable assets (or similar KPIs).

**The entire value chain should also be taken into account to a sufficient extent where possible.** We therefore fully support differentiation between "greening of" and "greening by" aspects. The requirements for meaningful life cycle analyses must also be implemented with a sense of proportion.

### 3. Key aspects for the targeted implementation of taxonomy in the energy industry

In principle, **a level playing field and non-discriminatory competition should be ensured.** Even if we support preferential treatment of selected technologies (such as renewables and investments in transport and distribution networks), a preconditioned application of the LCEA (Life Cycle Emissions Assessment) approach should be applied for all technologies for electricity and heat/cooling generation in the future. To this end, **it is essential that technology-specific LCEA standard values are developed and made available through cooperation between the European Commission and the Sustainable Finance Platform.**

**It is important to adopt an overall systemic perspective that allows realistic implementation of the EU's medium- and long-term objectives.** This could be achieved, for example, by gradually lowering the thresholds for electricity and heating/cooling plants every five years with a view to achieving an ambitious but realistic reduction target for 2050.

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Any retrofitting of existing plants for electricity and heat/cooling generation should be included in the taxonomy as sustainable if it can be demonstrated that it significantly improves the climate and environmental performance of the plant independently of the direct gCO<sub>2</sub>eq / kWh emission limit values.

With regard to the necessary consideration of transition technologies, **we advocate raising the threshold for electricity and heat generation from gas combustion to 350 gCO<sub>2</sub> / kWh from direct emissions for combined cycle gas turbines and 500 gCO<sub>2</sub> / kWh from direct emissions for other gas-based generation technologies** (e.g. electricity generation and cogeneration taking into account the total useful energy from electricity and heat generation).

We consider it necessary for the success of the energy system transformation that **all investments in the electricity transmission and distribution networks should be defined as sustainable**. They are necessary foundations for a sustainable and robust energy system and the foundation has to be laid today.

In addition, **we consider it important to define not only the retrofitting of gas transport and distribution networks to integrate hydrogen and other low-carbon gases as eligible**, but also the expansion of gas networks, **provided (and this is a central prerequisite) that the transformation to a decarbonised world is made possible in the long term**. In the medium and long term, this will enable the integration of hydrogen and other low-carbon gases and support switching between gases of different types and calorific values.

In addition, CHP and district heating have to be classified as green economic activities because they offer high effectiveness due to their high efficiencies. They can be coupled with renewable energies and offer climate-friendly solutions, especially for neighbourhoods, as the greening of gas releases significantly lower emissions.

**Further activities that will enable the transformation into a decarbonized economy should also be included in the taxonomy:**

- e.g. storage facilities that use hydrocarbons as a storage medium, provided that this enables the long-term storage of renewable or decarbonised gases. Qualifying all hydrocarbon storage facilities as ineligible – as it is currently the case in the draft – does not constitute a meaningful, sustainable path forward.
- e.g. the development of technical test criteria specifically for Power-To-X technologies in order to facilitate the use of Power-To-X technologies and remove possible investment barriers.
- e.g. power generation from biofuels that is assessed in relation to the relative comparison value for fossil fuels set out in the Directive (EU) 2018/2001 on the promotion of the use of energy from renewable sources (RED II).
- e.g. the inclusion of gas mobility in the form of CNG and LNG, the production and use of biofuels and renewable hydrogen in fuel cell vehicles and other fuels in the definition of sustainable mobility.