

# EXECUTIVE SUMMARY AND KEY RECOMMENDATIONS

## EXECUTIVE SUMMARY

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Austria's energy policy has seen many positive developments since the last in-depth review in 2002. A new green electricity law passed in 2006 reformed the support system for renewables. New and very ambitious climate change and renewables targets were adopted by the government following the 2006 elections; a competition enhancement programme was negotiated between regulators and the electricity industry; and a major new gas discovery has substantially added to Austrian gas reserves. Nevertheless, great challenges remain for the Austrian government in balancing the "3 Es" of energy policy: security of energy supply, economic development, and environmental protection.

Austria revised its climate strategy in early 2007, following the establishment of a new government. The new approach is commendably assuming a more realistic split between domestic action and the use of flexible mechanisms, but there are still doubts about some of the assumptions underlying it, and whether it will be sufficient to cover the very significant gap to meeting Austria's commitment under the Kyoto Protocol and the EU Burden-Sharing Agreement. There are also doubts over the adequacy of the institutional arrangements in co-ordinating climate policy across a number of government departments and offices. It may become necessary for Austria to consider new arrangements to assure that the measures in the climate strategy are implemented in a timely manner. It is also questionable if renewables and energy efficiency policy and ambitions are well balanced within the current national climate policy.

In the absence of nuclear power plants, one possible way of increasing security of supply in Austria is to increase the domestic production of energy. Austria is strongly promoting an increase of the share of renewables in total primary energy supply (TPES), and has adopted highly ambitious targets. Under the target for 2020, the contribution from all renewables will have to more than double, and the contribution from renewables other than large hydro installations will have to triple, even if energy consumption does not grow at all between now and 2020. These targets are extremely challenging, and meeting them will almost certainly lead to significant cost increases for energy. The means to achieve the planned increase of renewables are economic support instruments such as a feed-in tariff, tax exemptions and

direct grants to investors, on both the federal and state levels. While the support system has some positive attributes, such as a reduction of subsidies for future projects compared to current ones, and increased transparency, it is extremely prescriptive regarding which technologies will be supported at what level, and very costly to energy consumers. The support system is designed to promote particular technologies on the basis of their assumed costs, with the aim to make these technologies competitive. It is, therefore, not a system where the aim would be to achieve the planned contribution of 45% renewables in TPES at the lowest possible cost. Support costs under the new system have already increased considerably faster than electricity production, and are likely to increase even further, given the ambitious targets.

In the area of energy efficiency, Austria is one of the leading countries in researching efficient building solutions, and has a well-developed research programme integrating energy efficiency and renewables to take the most advantage of both. There are concerns in the area of implementation, however, where, for example, widely diverging building efficiency codes allow builders to construct houses of varying efficiency depending on which state they are built in. More generally, energy intensity in Austria has increased in recent years, while for most of its neighbours it has continued a long-term trend of decline. In order to achieve the climate change and renewables targets, the Austrian government will have to put a strong focus on reversing this development.

In terms of fossil fuels security of supply, Austria's domestic production of oil and gas is declining rapidly. Nevertheless, significant finds have added considerably to gas reserves in recent years and new finds are still possible. The Austrian government should, therefore, take all the measures required to encourage exploration activity, and apply international best practice to ensure continued production of reserves for as long as possible. Austria did not suffer physical supply shortages from the Russian gas supply interruption in early 2006, but this raised concerns, however, about the adequacy of storage capacity in the country, in particular in the light of rapid increases in gas use for power generation, and reinforced the Austrian government's desire to work on source diversification for gas supply. The options here are the Nabucco pipeline, which would bring Caspian gas to Europe, and/or through an LNG terminal on the Croatian island of Krk, which would open an import route for North African gas into central Europe and Austria. Both of these projects are commendably supported by the Austrian government and the partially state-owned Austrian oil company OMV. Given the very long gestation period they already have experienced, it will be necessary for the Austrian government to continue to fully support them, if they are to achieve completion within the expected time-frame of 2010 to 2012.

In the area of market reform, Austria has laudably implemented the relevant EU directives well ahead of their deadlines in legal terms. Nevertheless, effective

competition has failed to emerge, partially because many smaller measures that enable customers to switch supplier easily have only recently been agreed to, but also because of some systemic weaknesses in Austrian liberalisation. These are, in particular, dominance of the incumbents in electricity and gas, a lack of transparency in price formation, and a weak regulatory system that may lead to conflicts of interest between regulators and owners. It will be important for the Austrian government to address these weaknesses, and to continually observe the development of competition in Austrian energy markets, with a view to taking additional measures to promote it, should this be necessary.

Research and development in energy technology has a long and strong tradition in Austria, and has been successful in creating world-class industries, e.g. for small-scale biomass boilers. To ensure that it continues to be successful, the Austrian government is taking a number of excellent initiatives, such as the development of a long-term R&D strategy, and the provision of additional funds for energy R&D.

## KEY RECOMMENDATIONS

*The government of Austria should:*

- ▶ *Implement the measures proposed in the 2007 revision of the Climate Change Strategy, with a particular focus on the most cost-effective means of achieving reductions in greenhouse gas (GHG) emissions, and allowing energy users flexibility in deciding how they want to achieve the overall target. Particular care should be taken to ensure effective co-ordination of the government ministries.*
- ▶ *Continue to pursue source diversification in gas supply by supporting the multinational projects that will provide Austria with a greater choice of supplies.*
- ▶ *Ensure progress in real market opening by fully supporting the regulatory agencies' efforts, such as the 2006 competition enhancement programme in electricity, and by implementing the means to create fully competitive markets.*