

**Opinion of the EPSU Standing Committee on Public Utilities regarding the proposal for a directive of the European Parliament and the Council on the promotion of combined heat and power (CHP) based upon the demand for useful heat in the internal energy market COM(2002) 415 final**

*Adopted by the EPSU Executive Committee of 12-13 November 2002*

Combined heat and power is already safeguarding more than 50,000 jobs in the European energy sector, as well as numerous jobs in process plant and mechanical engineering. CHP has therefore helped to cushion the huge loss of energy jobs in the EU member states seen as a result of liberalisation. CHP jobs are jobs that are future-oriented. As CHP is regionally based and also offers benefits in terms of ecology and climate policy, it is making an important contribution to the development of a sustainable energy sector in Europe. For these reasons, the EPSU has a major interest in supporting and further developing CHP.

EPSU recognises that co-generation, while being valued positively for its contribution to more efficient production of electricity, ensuring regional and local jobs and leading to less imports and thus dependency, it can have negative impacts if not properly introduced. Co-generation workers sometimes fall under collective agreements that provide worse pay and conditions. It might further be that the price at which incumbent companies are to buy production is set too high, forcing the company to incur losses that affect workers and consumers. Co-generation can also replace existing production leading to job losses. EPSU therefore recommends that the introduction of co-generation schemes is discussed with the trade unions. These schemes should also offer the possibility to offset negative consequences for employment.

The EPSU welcomes the fact that, five years after the publication of the landmark "Community strategy to promote CHP and to dismantle barriers to its development" (COM(1997) 514 final), the EU Commission wishes to create a framework which can support and facilitate the installation and proper functioning of electrical cogeneration plants and activate the existing national potentials for high efficiency cogeneration through this proposal for a directive. The EPSU agrees with the assessment of the Commission, that in view of the risk to CHP resulting from the mechanisms of liberalisation and the lack of internalisation of external costs in the liberalised heat and electricity markets of the EU "regulation certainty and appropriate mechanisms that address the lack of internalisation of external costs" are needed.

The EPSU expects a directive corresponding to these objectives to be supported by national legislations to promote the maintenance and development of CHP. Such a directive will be measured by whether it

- ensures, finally and irrevocably, that national measures to promote the maintenance and development of CHP are not threatened by the EU verdict of intervention in freedom of competition – after all, these are measures that are absolutely necessary for environmental and climate policy.
- each member state will be set objectives that are clear and as unambiguous as possible to increase the share of electricity generation attributable to CHP plant, which are aimed at the fullest and most rapid utilisation of the available CHP potential.

Unfortunately, the EPSU has to conclude that the proposal for a directive only meets these criteria to a very limited extent. In particular, the EPSU criticises the following proposals:

- In point 16, promotion should in principle “be focused on the share of cogenerated electricity produced either in installations with a capacity below a threshold value that should be set at 50 MW(e) or lower.” The justification given for this (point 4 of the explanatory memorandum) that “large CHP plants are in a better position to receive favourable terms of finance and fuel prices,” is deficient. In the practice of the liberalised markets, CHP plants have to compete with large condensation power plants that have often been written off and in reality, in spite of minor differences in their respective cost structures, large and small CHP plants have just as few opportunities. This provision does not therefore take into account that all CHP plants, and not just small and medium-sized plants, are threatened by the negative effects of liberalisation that have been identified and the failure to take into account external costs. **This incentive threshold of 50 MWe should be deleted and not replaced.** Furthermore, it is contrary to the principle of subsidiarity in relation to the national formulation of the incentive framework rightly emphasised *inter alia* in point 22.
- The member states have not been set clear objectives regarding the proportion of total electricity generation to be generated by CHP. The justification given for this (in point 5.4 of the explanatory memorandum) that “the national market frameworks for cogeneration across the EU are very disparate with regard to for instance market potential for cogeneration, national energy mix, availability of fuels, industrial structure, demand for heating and/or cooling etc” is uncontroversial, but is not convincing in view of the dramatic differences between the states illustrated in Table 1. This means that even taken as a whole, the criteria referred to do not give a plausible justification as to why, for example, in 1998 in a major core country of the EU only 2.5 per cent of electricity was generated by CHP, while in a comparable industrialised second core country that has a climate that is only slightly different, the figure was 52.6 per cent. The national potentials of the two industrialised core states of the EU might be slightly different, but not by the factor determined of 20. **For this reason, clear national target values should be specified in this first directive based upon the declared objective of maximising the potential of CHP in all of the member states. The minimum starting point for these target values should be the objective of the “Community strategy to promote combined heat and power generation and to dismantle barriers to its development” (COM 1997 514 final), which was adopted in 1997, to increase the proportion of total electricity generation generated by CHP from 9 per cent in 1994 to 18 per cent by 2010.**
- A simple reporting commitment of the member states, as provided for in Article 6, will not be sufficient to make progress towards the objective of a significant increase in the proportion of electricity generated by CHP, which was declared five years ago. **Instead, in order to check the quantitative objectives for the individual member states monitoring by an appropriate independent institution should be provided for in order to check, three or four years after the entry into force of the directive, based upon uniform EU criteria, whether and to what extent the individual member states are achieving the target that has been set for them. If this were to show that a member state is not taking measures, or is not taking adequate measures to achieve its target, a binding mechanism will need to be laid down for the initiation of necessary additional measures to ensure that the national objective is achieved.**

The **European Federation of Public Service Unions (EPSU)** organises workers in public and private companies in all parts of the electricity and gas sector, including generation, renewables, transmission, distribution and supply. Our members produce electricity based on many different fuel sources, such as wind, solar, nuclear, coal, oil, gas and hydro. EPSU represents several hundred thousand workers in many hundreds of utilities located throughout the European Union, European Economic Area and Central and Eastern Europe. The EPSU also organises many public services such as health, local government, urban transport and waste. Our members therefore understand the importance of climate change issues for the whole of the economy. EPSU is a member of ETUC.

EPSU promotes the development of a Europe for Citizens, based on solidarity, equality and sustainable social, economic and environmental development. We support a European Strategy for Security of Energy that encompasses all of these elements.

EPSU made a significant contribution to the *EU Green Paper: Towards a European Strategy for Security of Energy Supply Com (2000) 769, 29 November 2000*. Our position on emission trading is to be read against the background of that debate in which we advocate a long-term strategy going beyond 2050. Further contributions to the debate are our positions on the Commission Communication *Recent Progress with building the internal electricity market" (Com 2000) 297* and the Commission Directive *on the promotion of electricity from renewable energy sources in the internal electricity market (2000) 279*

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