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Time is running out

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Many of the companies in the utilities sector have so far failed to implement a comprehensive decarbonisation strategy.

Utilities sector: assessment & engagement

According to the analysis by our partner MSCI, less than half of the companies in this sector^[1] have set themselves goals such as the ones required for the containment of climate warming at 1.5 or 2 degrees ("not Paris-aligned").

In addition, the goodwill <ich weiss nicht ganz genau, was mit "Unternehmenswerten" hier gemeint ist, komme aber nur auf den buchhalterischen Goodwill, da saemtliche andere Konzepte des Unternehmenwerts ja keine zeitliche Beschraenkung aufweisen> of utilities has a long life; that and the high capital intensity make a transitional period of at least a decade seem realistic.

The results also show that, on the basis of a global carbon budget, i.e. the total amount of emissions that may be produced for global warming to still remain within the 2-degree confines, the utilities sector would have to facilitate the lion's share of these reductions, given that this sector has already developed low-emission technologies that are also competitive. The sector is therefore in a better situation than others.

Investments in networks and energy storage necessary

In order to allow for a comprehensive transformation of the global utilities sector by 2060 towards less CO₂-intense forms of energy (and to achieve a CO₂ intensity of zero), global investments are particularly needed in networks and renewable energy. This is in line with the models of the International Energy Agency in scenarios that follow the 2-degrees target. The funds required by 2060 may amount to more than USD 50,000bn, with USD 1,200bn earmarked for energy storage in the field of renewable energies until 2050.

^[1] Based on the MSCI ACWI IMI index, constituents of the utilities sector as of July 2019

Chart: Global electricity production in the utilities sector, 2-degrees scenario

Source: International Energy Agency

Chart: Investments required in the utilities sector

Source: International Energy Agency

Smart networks

At 50 million kilometres of worldwide installed capacity (N.B. that is roughly the distance from Earth to Mars), the global electricity network is one of the most complex infrastructure systems around. Whereas originally the networks were generally set up as a one-way system (large-scale power plants produce electricity for consumers), the adjustment to changes in conditions such as input from the demand side constitutes an essential challenge for the sector.

Technological progress, the doubling of the flow of data that we have seen every two years, and the strong decrease in prices in the field of data processing allow for the implementation of the required solutions to a larger extent nowadays. However, further progress in the area of the already existing and still-to-be-developed smart-grid solutions is necessary to support long-term decarbonisation; on the one hand to integrate new technologies, and on the other hand to better handle the demand side.

Engagement with network operators

In order to address the aforementioned issues, we have approached various network operators and asked them for their input. We have initiated a positive dialogue and been in frequent contact with the network operator Fluvius System Operator. In our discussions, we addressed the problem of a lack of definition, given that for example it is still not fully clear which forms of energy are considered renewable or green.

The EU Taxonomy, which is being worked out as we speak, may provide guidance in this context. The identification of the feeding sources of energy for the purpose of tracking their point of origin is mainly possible for those agents who hold information on connecting points; after feeding into the general network, it is very difficult to trace the feeder.

Test of blockchain technology in Austria

As part of the national specification of the goal to transform the domestic generation of power to renewable sources by 2030, Austria launched a pilot project at the beginning of 2020 to regulate the network with small renewable plants on the basis of blockchain technology.

The goal of APG (Austrian Power Grid) and EWF (Energy Web Foundation) in this project is to prove that a network that consists of smaller, decentralised units of power production can be regulated. Here, the idea is to apply blockchain technology in order to register and quantify the production plants involved and to implement the financial settlement of the transactions.

The connection of decentralised renewable energy plants to wholesale electricity markets will also be tested via EWF facilities within the framework of the project.

You can find our dossier on rethinking energy production and consumption at: <https://blog.en.erste-am.com/dossier/strom-energie/>

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