

# Fit for 55 and the future of European energy companies

Blog post by Senior Associate Giorgio Corbetta, 22 June 2021

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The energy companies emerging from the flurry of legislation the European Commission will release on July 14th will be very different from the existing ones. As the energy sector is compelled to reduce its emissions to close to zero by 2050 to achieve the EU net-zero goal, the commission is using its executive power to forge a new model of energy business that better fits its climate ambitions.

Business models get changed because of shifting market dynamics, public pressure, and legislation. Aggregators in the power sector such as Next Kraftwerke emerged as flexibility became a commodity with a specific value. The recent corporate shake ups across oil and gas majors (Shell has been mandated by a Dutch court to slash its emissions by 45% by 2030, and the composition of ExxonMobil and Chevron's boards has been altered by activist investors) were the result of public opinion shaping investors' actions. In the European Union, drastic changes to companies' emissions reduction strategies will be mandated by law.

The Fit for 55 package will force energy companies to change in three main ways: reduce their carbon footprint, operate across sectors, and get closer to end consumers.

First, the review of the Renewable Energy Directive will introduce higher renewable energy targets, leading future energy companies to step into power generation and develop a diversified generation portfolio. Renewable energies will make up a large portion of companies' power generation capacity but flexible assets, such as natural gas, biomass and storage, will also be part of the portfolio, to meet the balancing needs of the electricity grid. Finnish energy company Fortum's acquisition of German utility Uniper in 2020 is an example of such portfolio evolution. Fortum's power generation was already over 95% carbon free at the time of the deal, and the incorporation of Uniper's gas assets is expected to enable further wind and solar energy capacity roll out.

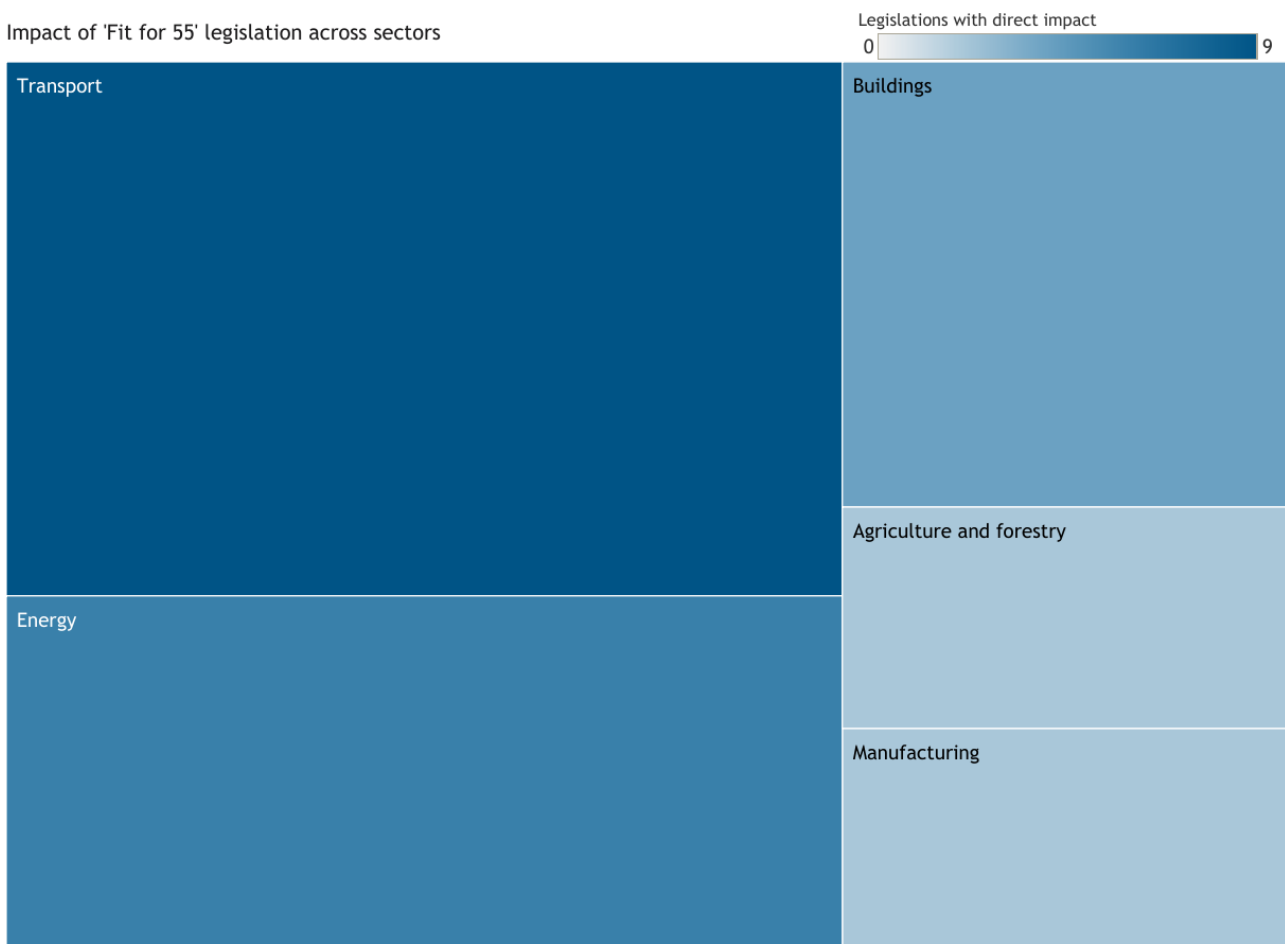
Second, the Fit for 55 package incorporates the recommendations of the commission's 2020 Sector Integration and Hydrogen Strategies, which set out the increasing interlinkages between energy, industry, heating and cooling, and transport. As such, the energy company of the future will be asked to facilitate such sector integration through the development and deployment of clean technologies across sectors. Those involve (renewable and fossil fuel-based) hydrogen for industry and heavy transport, and EV charging infrastructures. For instance, Swedish utility Vattenfall has invested in green steel projects, and Danish former oil major Orsted is developing solutions to meet growing clean hydrogen demand with its abundant offshore wind generation.

Third, in the commission's thinking, changing consumer behaviours are key decarbonisation drivers. The revision of the renewable energy directive will upgrade the provisions introduced in 2018 as part of the Clean Energy for All Europeans package, specifically regarding active consumers and renewables self-consumers (articles 15 and 21 of the 2018 Renewable Energy Directive). To tap into the business opportunity to serve millions of potential new users, energy companies will have to design novel customer experiences for interacting with the power grid. This will be true for electricity generation and consumption but will also extend to domotics and vehicle-to-grid applications. Italian electric utility

Enel established Enel X in 2017 to integrate demand response into their residential, business and urban solutions offer.

Oil dependency (particularly for transport) is set to remain a reality well beyond 2030, and investors' business and environmental concerns around energy companies will continue to play a role in guiding (or forcing) companies towards net-zero commitments. But at least in Europe, thanks to the Fit for 55 package, energy companies won't be given an alternative: they will either transform into the energy business of the future the commission would like to see going forward, or perish under the burden of polluting assets.

Impact of 'Fit for 55' legislation across sectors



Though the Fit for 55 package will affect transport disproportionately, energy will be directly impacted by half of the legislative measures in the package.