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## Clean energy for all Europeans - Europakommisjonens regelverksforslag

Næringslivets hovedorganisasjon (NHO) viser til Olje- og energidepartementets høringsbrev om Vinterpakken - høring av regelverksforslag fra Europakommisjonen datert 19.12.2016, samt høringsmøtet om samme sak 18.01.2017.

Kort oppsummert er våre hovedpunkter følgende:

- Vi er særlig fornøyd med Europakommisjonens vektlegging av velfungerende markeder. Høringsforslaget inneholder mange positive forslag for å bedre markedesdesignet.
- Samtidig ser vi motstridende målsetninger og unntak, samt lite samspill med kvotehandelsregimet (ETS) og andre sider ved Energi Unionen som byrdefordelingsmekanismen. Dette skaper utfordringer for kostnadseffektive tiltak.
- Et økt energieffektiviseringsmål på EU nivå og tak på energibruk er lite kostnadseffektivt og vi frykter at det vil kunne undergrave prissignalet fra ETS. Vi beklager at elektrisitet fortsatt er diskriminert ved bruk av primær energi faktor.
- Vi registrerer at det fortsatt legges opp til støtte til modne fornybare teknologier. Det vil også kunne undergrave ETS og investeringer i nett.
- Styringsmekanisme med økt vektlegging av et regionalt perspektiv er bra, men fremstår som for byråkratisk.
- Det gis gode føringer på forskning og innovasjon, men vi etterlyser et tydeligere signal på betydningen av CCS.

Punktene utdypes nedenfor og følger Europakommisjonens tematiske inndeling. Vi viser for øvrig til høringsuttalelsene fra våre landsforeninger for mer utfyllende kommentarer.

Vennlig hilsen

NÆRINGSLIVETS HOVEDORGANISASJON  
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## **NHO'S COMMENTS ON THE WINTER-PACKAGE – CLEAN ENERGY FOR ALL**

### **Policy areas**

The Confederation of Norwegian Enterprise (NHO) welcomes the winter-package and regards it as a good step forward on market design. We also welcome the proposed regulation on governance. Clear targets and market incentives are necessary, but must work together for a predictable framework.

The completion of the internal energy market is an imperative. Member states must cooperate in a consistent and reliable manner. Even though the Commission takes a pan-European holistic approach to make the internal market function, we find a lack of reference to the other pillars of the Energy Union, in particular the Emission Trading Scheme (ETS), in the proposals.

Policies that provide barriers for a cost-, energy- and climate efficient pan-European market-based approach to energy should be avoided. Energy efficiency and renewable energies are measures to curb greenhouse gas emissions and, hence stringent targets and RES subsidies to mature technologies (and subsidies to other energy sources like fossil fuels and nuclear) undermines price signals and the ETS.

We regret that it seems necessary to point out that electricity is a carbon neutral energy carrier under a decreasing ETS cap and imperative to both climate and system. Hence, legislation that punishes the carrier rather than the energy source should be avoided.

The EU's Energy Union strategy's five dimensions are closely interrelated and mutually reinforcing. NHO comments on these follow below.

### **Security, solidarity and trust**

We welcome a stronger approach on security of supply from a European rather than national level. Today, issues of security of supply are also decisive on member states' national agendas. From a power market perspective this is not optimal as it requires costly excess and reserve capacity. The Nordic experience is that a physical connected partnership and an integrated market yields major efficiency gains for the system and the economy. Increased own production on renewables, smart energy solutions or LNG imports from an increasing number of sources, all diversify and strengthen security supply.

The completion of the internal energy market, harmonised and without national distortions, is the most rational long term solution to fulfil Europe's three partly mutual exclusive targets of security of supply, decarbonisation and competitiveness. Connecting the various energy resources in a pan-European network, will boost competitiveness, increase security of supply, and curb greenhouse gas emissions.

### **A fully-integrated internal energy market**

NHO is positive to the Commission's effort to stimulate better functioning of the inner energy market by common rules, digitalization for smart solutions and demand side inclusion. The

legislative proposals and initiatives cover retail and wholesale market functioning, renewable energy, energy efficiency and European Union governance.

We appreciate the market orientation towards fewer and more stringent subsidies for all energy sources. However, there are still too many exceptions and possibilities for continuous subsidies of mature renewable technologies. Effective competition policies must provide companies with legal certainty and more uniform application of the competition rules and principles across the EU and worldwide. The 2030 targets for climate, renewable energy and energy efficiency will be costly without a functioning energy market.

Today, no effective price signal based on scarcity pricing reaches the final customer due to a mix of market distortions such as fixed energy prices, fixed taxes and levies, static support systems and national market regulations. The lack of normal market-dynamics prevents investments and rather gives incentives for more "fixes" by regulation. There is an abundance of flexibility, but no price for it. Norwegian hydropower flexibility is already partly balancing northern-Europe although not paid for stand-by or effect, but energy.

Hence, a regional approach to creating bidding zones, with an agreed and coordinated methodology, should be explored in cooperation with relevant stakeholders. Furthermore, we support not allowing TSOs to limit cross-border capacity due to internal bottlenecks or loop flows. NHO supports the intention to harmonise network tariffs, especially transmission tariffs, but rejects the Inter-Transmission System Operator Compensation (ITC) as it may overcompensate central states and disincentive trade. The market design principles for cross border participation in capacity mechanisms are sound, and support the proposal that foreign capacity and not the interconnectors *per se* participates. Flexible renewable contributions should count in the overall target such as electricity in the Norwegian transport sector.

Payment to system service providers including payment for grid connection, grid maintenance and grid upgrade, is not enforced on most renewable producers. This is highly necessary in order to get a proper price- and investment signal. The own-production of wind and solar behind the meter, avoiding tax and levies on own consumption and receiving payment for an untaxed and not demanded surplus, is neither fair nor sustainable. Unless independent and off-grid, one should have to pay for the grid's services. Particularly so when grids are struggling with capacity and frequency, at the expense of, and lost opportunities for, others. Interconnectors without national regulatory barriers is a necessary part of this.

NHO calls for governance rules that secure a balanced representation between member states, the role of national regulators and different companies in each country. Norway, not a member of the European Union, but intertwined in the European electricity markets physically and regulatory through the EEA-agreement must have equal rights as any member state.

### Energy efficiency

NHO supports ambitious targets for energy efficiency, but they must be cost effective and there should be no absolute cap on energy consumption in 2030. In order to ensure economic growth while using energy more efficiently, it would be more reasonable to define the EU-wide energy

efficiency target as an energy intensity target. Hence, a 1.5% annual savings target might be positive in the household, transport and building sector but might seriously threaten the competitiveness and expansion of a greener European industry.

The tightening of the energy efficiency target and its binding nature is not cost-effective as it undermines the carbon price signal of the EU-ETS. This has been put forward despite of the Commissions' own impact assessment, as well as available modelling that confirms the concerns of a negative impact on other policy instruments and the weakening of the decarbonisation efforts.

In terms of the measurement of the energy consumption, member states should have the choice to express their national contribution in primary or final energy. This would maintain flexibility and possibility to take into account energy efficiency gains in different part of the economy e.g. cogeneration.

The adjustment of the default coefficient for calculations of energy savings in primary energy from 2.5 to 2.0 might be in the right direction, but without consequence. The use of primary energy factors discriminates electricity and favors other energy contrary to long term policy targets and is inconsistent with other measures. To let savings in electricity use be counted twice as effective as savings in other energy carriers, leads to the discrimination or even abolition of electrical products, highly efficient partners to hydro-, nuclear-, biomass- and wind power with no CO<sub>2</sub>-emissions. Hence, the use of primary energy factors in product regulation is counterproductive.

In the use of obligation schemes, maintaining national flexibility through alternative measures is very important. However, the exclusion of ETS sectors from article 7 in order to avoid double regulation is imperative. Obstacles such as limited access to finance, high upfront costs or competing priorities for property owners need to be addressed in a coherent way.

Financing tools for energy efficient building renovation need to be easily accessible and available both at present and in the long term. This requires a stable and long-term policy framework for energy efficiency in buildings setting a clear vision together with milestones positive for this sector only.

A better (political) understanding of the concept of energy efficiency is needed in order to make the distinction between energy savings and energy efficiency, between energy and power, cross border infrastructure co-operation and decentralised or centralised energy systems and smart grids. The large potential of energy savings in households and the building sector is not comparable to energy efficiency gains in the economy at large.

### **Climate action - decarbonising the economy**

NHO support the ambitious 2030 emission targets and the vision for 2050, with emission trading under a shrinking quota ceiling as the primary instrument.

However, in the absence of common international framework with comparable cost obligations for the major economies, technology efforts and compensation schemes are vital or we risk continued carbon and investment leakage. Hence, giving rise to increased global emissions, threatening

European competitiveness, economy and employment, as well as undermining the EU target on re-industrialisation.

Available free allowances for industry exposed to international competition without any cost pass-through options, must not be limited. Allowances, on a best performer basis, should work as incentive to hinder carbon- or investment leakage and to allow for economic growth. Only thus is it possible to guard against carbon- and investment leakage, secure a level playing field and give economic actors necessary predictability for investments and growth.

NHO finds that Europe overemphasises renewables as a saviour and do not sufficiently acknowledge the need of carbon capture storage or use in order to meet future climate targets. Although, growth in fossil fuels might have slowed in the OECD, it increases rapidly in most other countries. Despite impressive growth regionally, renewable energies still has a modest share of primary energy use, is dependent on fossil fuels due to its intermittency, and massive deployment gives environmental challenges. Hence, CCS is a necessity to meet the 450 ppm trajectory.

### **Research, innovation and competitiveness**

NHO welcomes the ambition to accelerate the transition to a low-carbon competitive economy, and agrees on its urgency and its opportunity for Europe. Still, we would like to stress that the number one priority in order to achieve clean and affordable energy for all Europeans is competitive, well-functioning and well-designed energy markets, also central to deliver supply security.

NHO supports the Innovation Fund (IF) as an important way to support low-carbon industrial investments. However, auctioned rather than free allowances should finance the IF and the New Entrance Reserve (NER).

NER300 failed to develop any CCS projects due to lack of finance and timing requirements. Hence, projects should be able to have support from different sources, risk should be shared not borne by industry and deadlines must be more realistic. Consequently, the IF must be complemented with other innovation-support schemes in particular on the market deployment of innovation technologies and judged based on their technological neutral excellence, e.g. GHG mitigation costs.