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## **Statoil Response to the Norwegian Ministry of Petroleum and Energy's Hearing on the Clean Energy for All Europeans Package**

Statoil supports the Energy Union objectives of secure, affordable and sustainable energy. The "Clean Energy for All Europeans" (CEAE) Package is an important part of delivering the Energy Union as it proposes legislation in all the key dimensions of the project, including decarbonisation, security, market integration, energy efficiency and innovation. A well-functioning market, combined with a price on greenhouse gas emissions based on the 'emitter pays' principle, is the best way to deliver on the objectives of the Energy Union, and such a policy framework would improve energy accessibility, affordability and sustainability.

Several of the legislative proposals will have a direct impact on Statoil's markets for natural gas, liquids and electricity in Europe. While Statoil welcomes the market-oriented and flexible approach towards reforming the power market and the investor clarity that could be provided through the Energy Union Governance Regulation, we are concerned by the potential for lock in of future policy inconsistencies between elements of the package such as the energy efficiency directive proposal and the EU's declared main instrument for decarbonisation, the EU Emissions Trading System (EU ETS), also currently under reform. Increasing indirect demand-side effects of the Clean Energy Package on the EU ETS, mainly through subdued electricity demand and allowances prices, would lower incentives for both fuel-switching in the power sector and investments in low-carbon solutions in the economy at large.

Energy efficiency is an important contributor to decarbonisation. However, targets for energy savings in their current form could end up limiting economic activity and growth. We believe that a more flexible approach, reflecting the European Council agreement of October 2014 and focused on achieving energy efficiency gains through innovative technology and business models, would better deliver on the ambition to eliminate energy waste and encourage smarter energy use to the benefit of European citizens and industry.

Below we have outlined some suggestions for improving the proposed policy framework:

- **A guiding "energy intensity" target instead of a *binding* "energy savings" target:** the proposed energy savings approach is overly prescriptive and unresponsive to unforeseen changes in national and EU economic activity levels. We encourage the European Parliament and Member States to revert to the agreement of the European Council of October 2014 and pursue a guiding energy intensity target at EU level, which would increase the flexibility of target attainment and ensure that cost-effective greenhouse gas emissions reduction remains the key priority for the energy transition.

- **Complementary measures to the EU ETS that could support a switch from high- to low-carbon fuels in the EU power mix:** In order to neutralise possible negative direct and indirect effect of other policies on the EU ETS, and to promote further meaningful decarbonisation efforts, the European Parliament and Member States should explore:
  - Early (2021) implementation of the proposed energy performance standard of 550g CO<sub>2</sub> per kWh for capacity mechanisms;
  - New measures, such as a European framework allowing for emission performance standards on thermal power plants, carbon price floors and air pollution limits, together with complementary measures to ensure stability between supply and demand for ETS allowances.
- **A level playing field for energy sources and technologies in EU's heating sector:** The CEAE introduces several measures that create an uneven playing field for natural gas in the EU's heating market. This approach ignores (1) the affordability of natural gas versus electricity for consumers<sup>1</sup>, (2) the considerable potential for emission-reductions and energy efficiency gains from upgrading gas appliances<sup>2</sup>, (3) the important contribution that full utilisation of the existing natural gas grid would have towards limiting total energy system transition costs and (4) the air quality benefits of natural gas. On this basis, we believe that the European Parliament and Member States should:
  - Avoid renewable targets in heating in the Renewable Energy Directive. Such target setting at sector level will reduce the flexibility of Member States to address decarbonisation and increase the share of renewables in the energy mix in the most cost efficient way.
  - Retain a Primary Energy Factor in the Energy Efficiency Directive that reflects the actual energy mix of the EU, promotes a level playing field amongst technologies and appliances and is updated on the basis of conclusive evidence according to technological progress and evolution of the electricity generation capacity. Importantly, it should not be used as a policy instrument indiscriminately favouring electrification, nor used in secondary legislation in a way that discriminates energy efficient gas appliances.
- **Ensure a well-functioning market-oriented framework for RES technologies:** Statoil welcomes the proposed revisions to the Renewable Energy Directive and the EU's internal market for electricity. European Parliament and Member States should:
  - Retain provisions for stability of the level of and conditions for financial support already granted to energy projects.

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<sup>1</sup> The Energy Prices and Costs in Europe report {SWD(2016) 420 final} illustrates that the retail price of natural gas is three times cheaper than that of electricity, when delivery costs, taxes and levies are included.

<sup>2</sup> By installing a modern, high efficiency boiler in a home, gas consumption can be reduced by up to 20% for the same heat output.

- Ensure that new projects based on mature renewable technologies are exposed to normal market conditions. Exposure to balancing requirements is a welcome measure, as long as the necessary compensation mechanisms (e.g. for curtailment) are introduced.
  - Provide further clarification on how the opening up of national support schemes to projects located in other member states would work in practice.
- **Policy coherence and predictability in the EU energy transition through the Energy Union governance system:** We welcome the introduction of integrated energy and climate plans through the Energy Governance Regulation, and the opportunity should not be lost to introduce more clarity about Member State policy trajectories when it comes to energy and climate policy. European Parliament and Member States should:
- Consider the added flexibility that a corridor approach could provide towards annual attainment of agreed policy targets. Since investment activity is non-linear and not under the control of Member States, a linear progression towards target attainment may be overly restrictive.
  - Ensure that efficient utilisation of existing energy infrastructure, in particular storage, transmission and distribution of natural gas, becomes a criterion when determining Member State contributions to EU Energy Union objectives.
  - Focus on how to manage interdependencies and foster robust energy trading arrangements, a well-functioning interconnected and transparent market place rather than emphasising how to reduce dependency on imports from third countries in integrated reports on energy security.
  - Provide further clarity on the proposed mechanism to fill ambition/delivery gaps and on the relationship between targets, planning, monitoring and verification in the Governance Regulation and other elements of the CEAE, to avoid any legal uncertainties for investors.
  - Provide more clarity on Member State utilisation of European Union funds (such as the proposed Modernisation Fund and the Innovation Fund) to support development and deployment of low-carbon technologies.
- **Promote measures that lead to actual GHG emission reductions in the transportation sector:** Statoil believes that any electrification of the transport sector should lead to factual GHG reductions and not be outweighed by increased emissions in the power sector<sup>3</sup>. The European Parliament and Member States should make sure that legislation in the Energy Union framework (including the CEAE package) supports the development of alternative fuels and infrastructure in transport, including hydrogen, natural gas and biofuels that lead to actual lifecycle GHG emission reductions and do not conflict with food production.

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<sup>3</sup> according to the JEC Well-to-Wheel analysis, the CO<sub>2</sub> intensity of the current EU-wide electricity mix is 150 gCO<sub>2</sub>/MJ

- **An effective framework for decarbonisation technologies:** Carbon capture and storage (CCS), potentially combined with hydrogen technology, can make an important contribution towards achieving the EU decarbonisation target. Such decarbonisation solutions are to a lesser extent addressed in the CEAE. It is important that the EU continues to actively support the development of CCS and takes due consideration of the long term role that CCS could play in the further development of the Energy Union.