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## CONSULTATION ON A 2030 FRAMEWORK FOR CLIMATE AND ENERGY POLICIES

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Statkraft acknowledges the stakeholder consultation as an important step towards an urgently required climate and energy policy framework for 2030.

Renewable energy sources (RES) will have the key role to deliver a European energy system that meets the EU's energy objectives – competitive, affordable, sustainable, safe and secure. The EU 2030 climate and energy policies should continue to drive deployment of RES, while ensuring that *all* these objectives are achieved. In particular, the future framework should provide for functioning carbon and electricity markets as a pre-condition to reduce greenhouse gas (GHG) emissions at least cost, to be compatible with the EU's competitiveness, jobs and growth agenda. Under the current framework carbon and electricity markets are undermined by fragmented national interventions, leading to misallocation of resources and unnecessary costs, and ultimately to negative impacts for competitiveness of Europe and affordability of energy for consumers.

A framework for 2030 that would deliver functioning carbon and energy markets should consist of the following main targets and instruments:

- a single binding headline target for reducing GHG emissions of Europe's economy by at least 40% in 2030, in order to achieve the EU's objective to reduce greenhouse gas (GHG) emissions by at least 80% in 2050;
- an appropriately revised Emission Trading Scheme (ETS) as the core instrument for reducing GHG reductions;
- specific measures complementing the ETS that

- internalise additional externalities of energy carriers and technologies and phase out support for mature technologies, to ensure fair competition across national borders and technologies in the internal energy market,
- a binding framework that targets energy efficiency and emission reductions of sectors not covered by the ETS;
- an interconnected internal electricity market, whose benefits for providing security of electricity supply cost-efficiently are fully exploited across national borders, as a condition for a secure *and* competitive decarbonised electricity system.

In order to avoid inefficiencies and unnecessary costs overlapping targets and instruments should be avoided. No additional binding EU headline targets for RES should be set if the 2030 framework provides for fair competition. In the opposite case, a binding headline target for RES should be considered.

In the following these elements related to main targets and instruments are further detailed as response to the questions in Point 4.2 and Point 4.3 of the consultation questionnaire, addressing their impacts for energy costs, competitiveness and security of supply (questions in point 4.4 of the questionnaire).

#### **Questions of Point 4.2 of the questionnaire: Targets**

In order to achieve the EU's objective to reduce GHG emissions by at least 80% in 2050, a binding headline target for reducing GHG emissions of Europe's economy by at least 40% in 2030 should be set

- A binding headline target of at least 40% by 2030 is the appropriate interim target for a cost-effective pathway to achieve the EU's objective to reduce GHG emissions of Europe's economy by at least 80% by 2050, as indicated by the EU Commission's Low Carbon Economy and Energy Roadmaps.
- Meeting this target significantly reduces Europe's dependence on energy imports, its exposure to volatile fuel prices, underpins a leading role in renewable energy, and contributes to Europe's competitiveness and climate change mitigation.
- A pre-condition is that decarbonisation is done in an effective way, and to this end the set of 2030 policies must underpin well functioning energy and carbon markets, making full use of the economic benefits of the European internal energy market.
- As today such target should be articulated in a binding framework in order to create predictability and legal certainty for investors and avoid unfair competition.
- Statkraft considers the binding headline 2030 target as an urgent and necessary starting point of a robust post 2020 climate and energy policy, to avoid lock in of carbon intensive investments and higher overall costs in the years to come. Only such a target would provide the required long-term certainty for continued capital-intensive investments in low-carbon technologies within the EU.
- Failure to agree timely on a binding and ambitious GHG emission reduction headline target may hamper the EU's ability to attract investments into emerging and "green" technologies.

Multiple and overlapping targets should be avoided: no binding EU targets for RES and energy efficiency should be set in addition to the 2030 headline target for GHG reductions

- A climate and energy policy consisting of overlapping targets and specific measures undermines carbon and electricity markets.



- Badly functioning carbon and electricity markets lead to massive misallocation of investments in the electricity sector, implying unnecessary costs and competitive disadvantages of European economy on a global scale.
- The 2020 target for RES has successfully promoted their deployment, triggering technological improvements and cost reductions. This trend is expected to continue towards 2020.
- Therefore beyond 2020 no additional dedicated binding EU targets for the share of RES to Europe's energy mix and for energy efficiency should be set, and the core instrument for driving market-based emission reductions should be an appropriately revised ETS. But any doubt around the validity of the 2020 target could have detrimental impacts on the confidence of investors and market players.
- Given the need for huge investments in energy, Europe is at the crossroads for deciding on its long-term energy system. Failure to design an appropriate policy for the future could result in misallocation of resources and stranded assets at large scale.
- Such an outcome increases the cost for decarbonisation for the European economy with negative impacts for jobs and growth, including in "green" sectors such as RES technologies.

#### **Questions of Point 4.3 of the questionnaire: Instruments**

The guiding principles for achieving the 2030 GHG emission reduction headline target should be to strengthen carbon and electricity markets by i) using the ETS as core instrument, ii) ensuring fair competition

- These are the conditions for reconciling decarbonisation and competitiveness.
- Currently these conditions are not fulfilled as the combined effect of the economic crisis, various and uncoordinated RES support mechanisms, and low carbon prices has disrupted the market in some regions, which leads to an electricity generation mix that is neither sustainable nor competitive.
- The future regulatory framework should set the appropriate market conditions that facilitate the transition to a sustainable, cost-efficient, safe and secure energy system.
- Under these conditions a binding EU RES target is not required beyond 2020. If, however, these conditions are not fulfilled a binding RES target needs to be considered, avoiding any conflicting interference with the ETS supply/demand balance.

#### i) An appropriately revised ETS should be the core instrument to achieve the headline target

- The core instrument for delivering the 2030 GHG emission reduction headline target at least cost is the EU wide and technology neutral ETS for the covered sectors, providing a level-playing field to all participants.
- The ambition/cap of the ETS has to be strengthened to reflect the 2030 GHG emission reduction headline target, and the GHG reductions of sectors not covered by the ETS.
- Furthermore, a transparent and predictable mechanism for enhancing the "stability" of the ETS vs. macroeconomic development should be considered in order to provide stable investment conditions.
- Emission reductions should be achieved by all sectors covered.
- In order to maintain the effectiveness of the ETS any additional specific measures should be complementary, but not "overlapping".
- A complementary binding framework of measures should be focusing on "bottom-up" energy efficiency/consumption measures for sectors not covered by the ETS, which, in parallel to decarbonising the electricity system, should facilitate electrification of transport and heating.

#### ii) The ETS should be the basis of a framework for fair competition in the internal energy market across national borders and technologies

- Fair competition in a functioning internal market is crucial for delivering a cost-efficient future energy system. In the absence of fair competition prices will not appropriately reflect the full costs of a technology, leading to market distortions and macroeconomic inefficiencies.
- Fair competition requires the following measures that are complementary to the ETS:
  - Subsidies/support for mature technologies and fuels such as electricity generation from nuclear and fossil fuels should be avoided.
  - For RES technologies technology-specific support should be carefully designed to reflect dynamically market and technology developments.
  - The same rules for grid access/use for all types – technologies, small/large scale capacity – of generation and storage should apply, and storage should be kept out of the regulated domain of DSOs and TSOs.
  - This is relevant in particular for small-scale generation or storage connected “behind” consumers’ grid connection point. Such configuration allows for attractive individual business cases, which, however, to a large extent are based on avoiding different charges, such as grid fees, or taxes. This may lead to undesired distributional effects, an inefficient deployment and integration of RES, and ultimately unnecessary energy system costs. Therefore all generation and storage installations should be treated on a level-playing field. In particular, power consumption from the grid and power injection into the grid should be considered separately for establishing charges and taxes.
  - Externalities related to environmental impacts and risks other than those related to GHG emissions, which should be covered by the ETS, should be internalised to the extent feasible. This applies in particular for nuclear energy, unconventional hydrocarbons and carbon storage. Relevant EU legislation should appropriately consider this aspect.

The benefits of the internal energy market should be fully exploited by integration of cross-border interconnection and capacities, which is key for a secure *and* cost-efficient decarbonised electricity system

- Expansion of transmission infrastructure is key for avoiding structural bottlenecks and for establishing a well-functioning market, and therefore for an efficient integration of RES. Especially additional interconnector capacity between markets with large hydro reservoirs and markets with high amount of intermittent power resources is the lowest cost contribution to flexibility and to generation adequacy.
- Uncoordinated national action aiming at ensuring system security may result in a European electricity system which is more costly than necessary, as the economies of an internal electricity market are not fully captured.
- Any analysis for establishing the need for capacity mechanism under competition rules and sector legislation should consider the contribution of cross-border interconnection.
- In case the need for capacity mechanism is established, it should be formulated market-wide, treating all capacity equally without discrimination between new and existing plants, and should be open for existing and new cross-border interconnection and capacity.

Yours sincerely,

for Statkraft AS



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