

To
European Commission

APER's answers to the Green Paper "A 2030 framework for climate and energy policies".

GENERAL QUESTIONS

Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

The lessons learned from the experience of 2020 package, taking into account the present EU energy system, are:

- A stable long term legislation framework is necessary for driving investments in renewable energy sector, providing clear signals for operators, reducing cost of financing and unlocking financial resources. All abrupt changes in support mechanisms, in particular retroactive, undermine confidence of investors and put the achievement of targets at risk.
- Ambitious and legally binding targets are effective tools to drive and promote investments, to create jobs, to push R&D, to ensure EU technology leadership in RES innovation.
- An integrated and coherent renewable energy generation, greenhouse gases reduction and energy efficiency promotion policy has proven to be an effective approach and it's the best way forward.
- Further efforts are needed for the removal of administrative barriers, and the clearness of planning and permitting procedures.
- An efficient support mechanism is able to adapt to the maturity and the changing costs of renewable energy technologies.
- More and smarter infrastructures are needed to ensure the most cost-effective integration of the energy mix.

All these lessons have to be considered by the Commission when designing new 2030 policies.

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TARGETS

Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectorial), and to what extent should they be legally binding?

A combination of renewable energy, greenhouse gases, and efficiency targets will be most effective in driving the objectives of climate and energy policy. An overall EU renewable energy target should be set. Starting from this EU overall target, a binding sub-target should be calculated for each Member State, under a sharing effort which takes into account economic conditions and renewable energy penetration levels. Member States would anyway continue to be given the flexibility to meet their targets with the renewable energy technologies they prefer.

The 2030 renewable energy target should not be seen as indicative, and should therefore be legally binding. EU energy efficiency and automotive targets have shown the limits of indicative targets compared to binding targets.

Ambitious legally binding targets for renewable energy are needed for the following reasons:

- A binding target means that Member States need to make every effort in a timely manner and it is the best way to encourage them to commit to an optimal level of renewable energy.
- A binding target will provide a long-term direction and a greater market certainty for planning and investments and that will decrease the costs of investment, facilitating the achievement of targets in the most cost-efficient way.
- A binding target will provide a long-term framework and this will push investments in research and innovation, creating new qualified jobs.
- A binding target will help the EU to keep a first-mover advantage on global markets.

Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

The three targets for emissions reduction, renewable energy and energy efficiency are complementary and reinforcing each other.

Taking account that in 2020 experience the trajectory for renewable energy growth was in some cases - like in PV sector - strongly underestimated, a thorough impact assessment for 2030 should be the base of sufficiently ambitious trajectories for renewable energy, backed-up by mandatory intermediary targets.

Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO₂ reductions for passenger cars and light commercial vehicles?

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A three targets approach for renewable energy, energy efficiency and emissions reduction determines the correct level of detail to provide guidance and security for investors.

Member States should be assigned set an overall energy target and decide themselves how that target is divided among sub-sectors, based on their resources, geographical and technological differences. Renewable targets covering the whole energy sector would provide more flexibility to Member States than sectorial targets.

How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

Targets should not be confused with support schemes. Targets are set to provide a direction to investors.

An efficient support mechanism is designed to reflect the maturity and the changing costs of renewable energy technologies and it is able to adapt to them.

The 28/2009/CE Directive does not prescript the means used by Member States to meet their national targets, including whether and which support mechanisms should be used. This approach should continue post-2020.

Long-term stable market and legislative frameworks delivered with targets will allow renewable technologies to reduce their costs faster. Investments made possible by long term volume targets (supported where necessary by well-designed support mechanisms) help drive down costs – both capital costs and the cost of capital - and will enable on-going reduction, and ultimately remove the need for specific support.

How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

In next 2030 climate and energy framework, the European Commission should set minimum indicative levels of security of supply and import dependence levels.

INSTRUMENTS

Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?

An ambitious 2030 renewable energy target should be the key driver for renewable energy developments.

However, changes to other policy instruments will be needed:

- Stable legal and legislative frameworks: Member States are responsible for ensuring stable frameworks and support schemes but the EC has a role to play as well. In the past, the EC has in

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some instances pushed for the review of existing contracts in the field of renewable energy (2011 memorandum of understanding between Portugal, the EC, the ECB and the IMF). It is critical that such recommendations are not repeated. The EC also has a role in warning Member States of the dangers of such measures as they seriously undermine the cost-effectiveness of reaching the renewable energy targets.

- Assistance on support mechanisms: while it is important that Member States maintain some control on their support mechanisms for renewables, minimum criteria for their design could be put in place by EC. This would give guidance for Member States to put in place support mechanisms that avoid over-compensation and are more compatible. Ultimately this would favor the convergence of national support mechanisms in the post-2020 period.

National support mechanisms need to be differentiated by technology to ensure the cost effective deployment of a broad portfolio of renewable energy technologies.

- Cooperation between Member State: the legislation should also allow for more flexibility in the modalities of cooperation between the Member States. The cooperation mechanisms in the 28/2009/CE Directive should be the basis of this effort. With the exception of some examples, cooperation mechanisms are under-used. The Commission should push their greater use for the post-2020 period by addressing the main obstacles to their implementation.
- Post 2020 research and innovation policies: it is important to ensure adequate financial funds to support innovation and research. It's important that fund to R&D for renewables sources and environment would be confirmed and implemented in EU budget 2014 - 2021.
- Infrastructures: Member States which fail to develop their network to allow for the large scale integration of renewables should be targeted early by the Commission as not complying with the provisions of the renewable energy framework. 2030 renewable energy targets should be factored in ENTSO-E's 10 year network development plan. The EC should help provide access to equity and streamline planning and administrative procedures along the lines of the actions taken in the 2012 infrastructure package.
- Financing: the creation of an energy single market by 2014 represents a critical step for further development of renewable energy sources because the European energy mix to be adopted must necessarily reflect the development trends of all Member States. To create a real European energy market is important to develop the electric grid, smart grids and energy storage systems.
- Heating and cooling: the Commission announced its intention to publish an EU heating and cooling strategy in the autumn. This strategy will, among others, boost the development of RES in this sector. Collecting robust information and statistics will allow better assessment of the obstacles and shortcomings presented by current instruments, foster the exchange of best

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practices leading to European guidelines on RES heat policy and create synergies among existing instruments.

How should specific measures at the EU and national level best be defined to optimize cost-efficiency of meeting climate and energy objectives?

- The key to ensuring that the targets are met in a cost effective way is the stability of long-term market and legislative frameworks. Stop-go policies, and retroactive changes, significantly undermine investor confidence and needlessly increase the cost of capital for capital-intensive technologies, such as most renewables. Investments made possible by long-term renewable energy targets will help drive down capital expenditure and the cost of capital and will enable on-going reduction, and ultimately remove the need for specific support.
- Cooperation mechanisms between the Member States can be considered as a tool to enhance the cost-effectiveness of meeting the climate and energy objectives. It is critical that this remains a bottom-up approach led by the Member States, with guidance from the Commission if required.

How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilize investment?

Now, at a time of scarce public money, the EU is approaching the end of an investment cycle in the power sector. The EU's objective is to finance the energy transition largely through private investments. For that purpose, transparency on market rules, tax exemptions, support granted and administrative procedures needs to be ensured.

To allow for cost-efficient Europeanization, an ambitious, stringent and stable EU framework adaptable to local and regional conditions should be put in place. The EU should harmonize certain elements of procedures (and therefore their related costs). A minimum set of parameters could also be taken into account by Member States when defining and updating their support mechanisms, such as the technology cost calculation. This will allow the progressive convergence of support policies, while maintaining the necessary flexibility to reflect specific context of the national markets.

To avoid further fragmentation of the internal energy market, the EU should as well further harmonize market design conditions e.g. provide for integrated intraday, balancing markets and harmonized network codes.

With regards to a 2030 RES target and the need to encourage investment in power generation assets, high shares of variable renewables require an increased need for flexibility from power generation capacity. Under transparent market conditions, with a decent degree of regional market integration, these power plants should still have a sound business case on the energy-only markets. In the mid-to long term

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however, further deliberations are needed on new market mechanisms, next to the energy-only market model, to ensure that investments in power generation continue once a liberalized and subsidy-free environment for all power generation technologies is achieved.

Which measures could be envisaged to make further energy savings most cost-effectively?

As with renewable energy targets, long term targets on energy efficiency would stabilize the market and provide the sector with clarity and certainty, thereby easing the achievement of the targets and facilitating the achievement of the existing 2020 targets by confirming to investors that energy savings are considered a long-term priority for the EU, as highlighted in the European Commission's 2050 Energy Roadmap. Investments would be fostered and costs decrease most effectively, thereby decreasing the level of public finance necessary.

Electrification of heating, cooling and transport should also be promoted as efficient tools to ensure cost-efficient energy savings.

How can EU research and innovation policies best support the achievement of the 2030 framework?

Successful innovation and decarbonisation policy need to focus on the no-regrets options identified by the European 2050 Energy Roadmap – renewable energy, energy efficiency and appropriate supporting infrastructure.

Post 2020 research and innovation policies at EU and Member State levels will be critical to support the achievement of the 2030 framework.

Ambitious renewable energy targets are a key driver for research and innovation, providing a demand pull for RES innovations and enabling large scale market deployment, which is essential for economies of scale and cost reductions.

This strategy should address the energy system integration and incentivize private investments in innovation in all segments of the value chain from R&D to market deployment, including smart grids.

COMPETITIVENESS AND SECURITY OF SUPPLY

Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?

Europe's competitiveness, our capacity to create jobs in the climate and energy sector, depends on our ability to produce innovation and drive it to the market with high quality and affordable products.

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Renewable energy targets promote the development and deployment of RES which in turn creates growth and jobs.

Job creation in the RES sector is critical to Europe's competitiveness. Investing in renewable energy creates jobs across sectors.

However, many jobs have been lost over the last two years following retrospective changes to support schemes adopted in several Member States. It is crucial, in order to avoid retrospective changes, to carefully monitor market and price developments.

What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?

Until today, fossil fuels have been the main drivers of energy price increases in the EU. The EU has little margin for maneuver to influence world trends in energy costs. The EU can become more resilient to energy prices by investing more in renewable energy sources.

Investments in new capacity always have an effect on energy *prices*.

Wind and photovoltaic energies have rather smoothened the increase of electricity prices via the merit order effect: because wholesale market power prices are solely determined by marginal costs and because wind and photovoltaic power have almost zero marginal costs, when the wind blows or the sun shines they push out from the market the power plants which use the most expensive primary energy resources, namely gas, coal and oil, thus decreasing the overall electricity price.

Progress on the IEM and infrastructure will also enable a much more efficient operation of the power system and cost-effective integration of RES (thereby reducing the need for back-up, storage etc.) and decreasing overall energy system costs.

One element, which is important to note, is the fact that reduced wholesale prices which benefit from the merit-order effect of low marginal cost renewables have not been reflected in retail prices. Decreased wholesale prices should be passed on to the retail market.

How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?

While international action against climate change is crucial, Europe must not make its efforts dependent on the existence on a global framework. Investments in climate protection, and notably the development of renewable energy technologies, pay off for Europe economically and socially for multiple reasons. Benefits arise from reduced economic risk from a decreasing fuel dependency, positive health impacts, as well as improved local value creation compared with fossil fuels, among many others.

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The EU is still the leading regional market for RES, but further efforts will be required to continue playing this role in the future.

How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?

The first important step to creating regulatory certainty in the field of renewable energy is the adoption of legally binding and ambitious renewable energy targets, including effective provisions for their timely enforcement. With respect to a supporting framework for renewables, any sudden, disruptive or even retroactive changes must be prevented. To ensure this, regulatory framework conditions should be transparent and predictable. Any financial support and remuneration should be reviewed regularly and the basis of transparent parameters to allow for a smooth adaptation to the respective renewable energy technology development.

Europe can continue to dominate trends for renewable energy, while becoming more resilient to fossil fuel trends. As such stability by means of ambitious and binding long term targets is the best way to achieve certainty for business while leaving flexibility to Member States and businesses to achieve the targets. An approach based on instruments and measures rather than targets would leave less flexibility.

How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?

To increase the innovation capacity of manufacturing industry the EU should:

- stimulate the innovation capacity of the renewable energy manufacturing industry by developing and implementing an industrial strategy;
- bridge market and innovation by looking at the whole supply chain for each sector and focusing on manufacturing;
- develop flagship projects of European manufacturing based on Member States cooperation on industrial policy;

The European renewable energy sector currently has a first mover advantage, which is the result of successful EU policy frameworks for renewables and binding renewable energy targets. Binding targets have provided the renewable energy sector with a direction up to 2020 allowing investments in R&D and innovation.

How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?

The Green Paper rightly stresses the role of Europe's indigenous energy resources. It however, fails to acknowledge that energy saving and renewable energy are our only significant and long-term indigenous energy solutions to achieve greater energy independence and realize major macroeconomic benefits, including new local jobs, reduced sovereign debts and EU industrial leadership. Moreover, renewable energy sources are the only indigenous sources in which the EU has a competitive advantage.

How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?

To improve its security of energy supply the UE should:

- increase resorting to renewable energy and energy efficiency. This will ensure a diversified portfolio of technologies;
- guarantee a grid infrastructure reinforcements within and between EU Member States. This is important, not only in view of increasing penetration levels of RES, but also to enable the Internal Energy Market while ensuring higher levels of security of supply;
- ensure that sufficient infrastructures, grids and interconnectors are in place. This increased grid and interconnection capacity could be used for balancing purposes. Greater balancing areas will help ensuring better security of supply and should therefore be taken into account as key enablers when designing the 2030 climate and energy framework.
- develop future market forms such as grid supports services markets, which will foster investments in all forms flexibility, from demand side management including smart meters, demand aggregation, interruptible demand, to storage, back-up and ancillary services.

CAPACITY AND DISTRIBUTIONAL ASPECTS

How should the new framework ensure an equitable distribution of effort among Member States?

What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?

The EU needs a European binding target, broken down into national targets. Cooperation mechanisms should be reinforced to facilitate target achievements while ensuring a fair distribution of efforts among Member States.

What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?

The 28/2009/CE Directive includes cooperation mechanisms available to Member States: statistical transfers, joint projects and joint support mechanisms. Some Countries have used these mechanisms with a bottom-up regional integration (i.e. Norway and Sweden) and the industry would like to see replicated this approach.

It is necessary increase cooperation mechanisms. Cooperation mechanisms, together with a target-sharing (based on efforts by all Member States and taking GDP into account hence based on a fair-effort sharing), will promote cooperation among Member States in the most cost-efficient way.

Are new financing instruments or arrangements required to support the new 2030 framework?

Financial tools and arrangements should be adapted to the 2030 objectives and the no-regrets option of the Energy Roadmap 2050.

The European Commission should fully explore with the European Investment Bank and national public institutions opportunities to dedicate funds and innovative financial instruments within the EU budget towards the financing of energy and climate priorities for 2030.

New financing instruments that reduce the cost of capital and reflect the transition to a system of more investments will be necessary. Banks should provide additional loans to the renewable energy sector. Instruments and other financing tools (loans, guarantees, project bonds) should be developed to support the deployment of innovative renewable energy projects.

APER remains at your disposal for any additional information about our answers and we kindly ask you to keep us informed in relation to Committee's works progress.

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