Direção Geral de Energia e Geologia

DGEG contribution under the process of public consultation "GREEN PAPER – A 2030 framework for climate and energy policies"[1]

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Portugal has adopted an ambitious policy on energy and climate in recent years, allowing to mitigate the greenhouse gases emissions (reduction of 25% of the total emissions in 2011 compared to 2005), reduce the external energy dependence (79,3% in 2011 compared to 88,8% in 2005), promote the consumption of renewable energy sources (24,9% of RES in the gross final consumption in 2011 compared to 19,8% in 2005) and promote a more efficient energy consumption, through financial and tax incentives, as well as the creation of specific programmes and measures included in National Energy Efficiency Action Plan (NEEAP), created in 2008.

The promotion of energy efficiency and renewable energy sources is included in the vision of Portugal for 2020 in terms of national energy sector, which seeks to articulate the strategies for the demand and supply of energy, having as main objective to put the energy to the service of the economy and families and ensuring, simultaneously, the sustainability of prices. The role of energy efficiency and renewables is essential to ensure the security of supply, promoting, at the same time, the diversification of the energy mix and the sustainability associated to the generation, transmission and consumption of energy. In addition, is crucial to ensure the competitiveness, price transparency, the well-functioning and the effective liberalization of electricity and natural gas markets.

In the current economic situation that Europe is facing, the access to the credit and to the respective financing conditions for companies is increasingly limited. The investments needed to meet the growing requirements of the climate and energy policies, together with the consolidation of the internal energy market and the revitalization of energy infrastructures create profound challenges to the governments and to the market players. The uncertainty surrounding the economic recovery and the credit markets heightens this situation.

The competitiveness of Europe in the global context should not be overlooked in favor of ambitious energy and climate goals that may not result in a global effort sacrifice. The adoption of new goals for 2030 should carefully evaluate the impact on the competitiveness of the European economy and of its Member States (MS) and should take into account all the components of sustainability: Environment Protection, Security of Supply and Competitiveness.

The adoption of a new framework for 2030 should guarantee that, independently of the agreed trajectory, the major objectives, such as the reduction of greenhouse emissions, the security of supply, the competitiveness and the economic growth, should be prioritized in function of the major challenges and threats that Europe is going to face in the coming years. The focus, in our point of view, without jeopardizing the balance of these three pillars, must be based essentially on the revitalization of the European industry, the economic recovery and the creation of jobs.

[1] COM(2013) 169 final

1. QUESTIONS

1.1. General

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

  The EU is considering its future energy and climate package in a context of needing to retain competitiveness and create growth in Europe. The 2020 targets contributed to the development of RES technologies and energy efficiency, but also contributed to the increase of the electricity bill, especially for those MS who were early-movers as regards taking measures to achieve the targets. We believe the most important lessons-learned are the following:

  - Policies should take into consideration actions already undertaken by Member States. The Energy Efficiency Directive (EED) did not take into account "early-actions", that is energy efficiency measures undertaken by Member States before 31 December 2013. This is a bad policy, for obvious reasons, and we should guarantee that it does not set a precedent; For analogous reasons, Member States that already achieved a good RES penetration cannot have the duty to increment such penetration as those who have not done so;
  - EU should only legislate/set targets after careful impact assessment, per Member State, per sector. This will reduce the risk of having to amend the rules of the game in the middle off the game, as was the case with ILUC, ETS backloading and Energy Efficiency – this instability causes more harm to the trust of investors than having no targets at all;
  - Find a right balance in policy and legislation between climate and competitiveness;
  - Promote less mature technologies, through support schemes, that do not burden the energy costs.

1.2. 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 sectoral), and to what extent should they be legally binding?**

  In order to be able to work for targets in 2030 we need an intermediate target as regards the physical implementation of an Internal Energy Market. The EU should set a target for minimum interconnections between Member States – the EC Conclusions of 22 may 2013 clearly set this goal - to meet the target of 10% electricity interconnection between Member States (as percentage of production capacity) – we should commit to a deadline, we propose 2015.

  Fully integrating the IEM is therefore, for Portugal, the condition sine qua non to compromise to new binding targets for 2030. We would be favourable to a sectorial CO2 reduction target. We can be open to RES targets as well, as we have potential and good conditions for further development of solar energy, for instance, but in such case it would be important to implement cooperation mechanisms, already foreseen in the RES Directive that enable renewable energy produced in Portugal to count towards the target of Luxembourg, for example (statistical exchanges). Again, interconnections are key.

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

  As outlined above, the major inconsistency is the non-existence, still today – de facto – of an IEM. The coherence of potential 2030 targets can be better ensured through the implementation of the 3rd package, interconnections construction, statistical exchanges and stronger coordination by the Commission.

  Further development of RES for electricity production can be undermined by lack of interconnections between MS, since countries with great potential, as the case of Portugal, sees its capacity expansion of RES limited.

- **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?**

  The breakdown of the sectors into sub-sectors may imply the loss of flexibility to Member States to better adapt the policies to their reality and peculiarities.

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

  See above. Added flexibility in setting targets.

- **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 our opinion and contradicting what is mentioned, the accomplishment of binding targets, for instance in the area of renewable energies, implies the establishment of previous conditions at internal energy market level, that enhance the security of supply.

  In this sense should always be contemplated flexibility mechanisms of achieving the goals and the use of alternative technologies and forms of energy, without excluding any option (CCS, Shale Gas, Nuclear, among others).

1.3. Instruments

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

  Energy Efficiency Directive ("EED") should be reviewed for the reasons outlined in the second last question of 1.3.

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

  The conditions for the functioning of internal energy market should be ensured.

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

Power Purchase Agreements and capacity mechanisms should be *"ultima ratio"* measures, legally admitted only for a short period when no other solution exists, including cross-borders. Again we point out that cross-border interconnections are crucial, as an integrated and properly working IEM would solve most problems related with generation offer and diversity of supply.

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

  We believe that the Energy Efficiency Directive is not a suitable instrument to achieve energy savings in a cost effective manner. EED privileges measures related with building renovation, which are tailor-made for countries whose climatic conditions make it indispensable to use cooling and heating systems, but are not so appropriate - from a cost-benefit perspective - for countries that experience moderate temperatures through all the year. Moreover, building renovation related measures entail substantial upfront investment costs. Considering that capital in Portugal is more expensive than in other Member States and combining with the fact that Portuguese consumers spend less in cooling and heating, it results that investments' pay-back will be much harder to achieve in Portugal than in other Member States;

  In this matter, we prefer a binding target for energy savings instead of the inappropriate mandatory measures such as those currently set under EED.

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

  R&D should focus on those technologies that most directly and effectively focus on cost reduction for final energy consumers.

  The use of support schemes should be boosted, avoiding mechanisms that burden the energy prices.

1.4. 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?**

  Full implement the internal energy market and ensure the reinforcement of the interconnections, so that the energy infrastructures could fully accomplish its function, the energy could circulate in European space and the consumers could benefit from greater competition and open markets, optimizing the resources of each Member State. So, we propose to increase the target for the interconnections level (see 1.2). Moreover, these problems should be overcome to allow the adequate implementation of cooperation mechanisms, foreseen in RES Directive, such as the statistical transfers. We believe that efforts should be made to implement the functioning of internal energy market without constraints. Also crucial is the improvement in energy efficiency.

- **What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?**

The targets on climate should be more flexible, especially match market needs and a greater degree of membership and awareness of European citizens and not merely binding targets, offset from the global reality and that even have promoted the relocation of companies and jobs overseas (for example: review the World Trade Agreements, to create a level playing field between the various economies, not only in terms of environmental requirements, but also in social matters).

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

  We believe there are now good arguments to end the linkage between gas and oil prices.

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

  Same rules for all (For example: review the World Trade Agreements, to create a level playing field between the various economies, not only in terms of environmental requirements, but also in social matters.)

- **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 decision regarding exploitation or not of indigenous conventional and unconventional energy sources within the EU should belong to the relevant local populations. Subsidiarity principle should fully apply here. The EU framework already assures that this sort of operation is carried-out under safety conditions. The exploitation of indigenous resources should not be either mandatory or prohibited or in some other way discouraged by the EU.

- **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?**

  Apparently this question contains already its answers.

1.5. 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 diversity among the 28 Member States is huge, but can be an opportunity. There are Member States with poor potential for RES development, there are others with nuclear, there are others with lots of potential for further development of RES, there are Member States with supply surplus, there are others requiring for additional capacity. On the one hand, it does not make sense to develop solar energy where there is no sun and wind farms where there is no wind. On the other hand, if the RES development is a UE target and if security of supply is of common interest, than all the UE should contribute for it.

One should also consider that the potential new targets should not be incremental, which would harm those Member States which have achieved more.

- **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?**

  In this matter we proposes the following:

  - The EU should create conditions so that investments related with complying with targets set in the EU common interest are not overcharged with the sovereign rating;
  - The statistical exchanges mechanism should work (again, interconnections are needed);
  - MS should indeed open their national markets and avoid implementing mechanisms that in practice will favour the generation nationalization.
  - ITC mechanisms should be further developed and implemented for electricity and gas.

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

  Yes, instruments that allows Member States of the Euro periphery to obtain capital at the same cost of others.