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Response from Agder Energi on the consultation of the European Commission Green Paper "A 2030 framework for climate and energy policies"

Agder Energi welcomes the opportunity to respond to the public consultation on the Green Paper "A 2030 framework for climate and energy policies".

Agder Energi is Norway's fourth-largest energy supplier measured by hydroelectric power generation with a mean annual production of 7.7 TWh. Installations, encompassing both river flows and storage capacity, exceed 1,700 MW of generation. Agder Energi's production facilities are situated in the very south of Norway, close to the European Continent and the UK.

General Comments

Agder Energi supports the EU ETS as the central pillar on the 2030 framework for European climate and energy policies. We see the EU ETS as the most efficient measure to reduce GHG emissions in a cost effective way and the most efficient measure to support the transition from the use of fossil energy sources to renewable energy sources.

Agder Energi is of the opinion that there should be no new binding targets for renewable energy and energy efficiency after 2020. All different kinds of subsidies for energy efficiency and energy production – including renewable energy – should be progressively phased out. In our view with a well-functioning EU ETS there will be no need for support schemes for energy efficiency and renewable energy. A well-functioning EU ETS will make both energy efficiency measures and renewable energy very competitive compared with fossil energy and in an efficient way lay the ground for security of supply based on energy sources that do not contribute to GHG emissions

However, in our view the current situation with a large surplus of quotas and subsequent low quota prices will not provide adequate long-term incentives for investments and therefore postpone important investments in low-carbon technologies. This may make it difficult and will increase total costs to meet the cumulative emissions targets for 2050. Therefore there is a need for structural changes of the EU ETS as soon as possible. Agder Energi supports a binding target of 40 % reduction in emission of greenhouse gases in 2030 compared to 1990 as a milestone towards 80-95 % reduction by 2050 compared to 1990, coherent with the EU 2050 vision. On the consultation on structural options to strengthen the EU ETS Agder Energi has suggested giving highest priority to the option of an early revision of the annual

linear reduction factor to meet the targets for both 2030 and 2050 on the way to a low-carbon economy.

The two other 20 % targets for 2020 – on renewable energy and energy efficiency - have contributed to undermine the carbon market as a tool for investments and as a measure to reach the long-term climate targets. It now also seems to be clear that the costs of supporting renewable energy and energy efficiency are very high and at least in the short run do not contribute to phase out production with high GHG emissions such as coal. Agder Energi is of the opinion that a well-functioning EU ETS will make renewable energy very competitive compared with fossil energy and in an efficient way lay the ground for security of supply based on energy sources that not contribute to GHG emissions.

Answers to the questions in the consultation

4.1 General

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

Most important when designing policies for the EU energy system towards 2030 is in our opinion to learn the lessons from the current policy framework.

EU-ETS has become an integrated part of the power market in Europe and has integrated climate change into daily market operations on a European scale at a fairly short time. As such ETS has been a success as a system, it secures that the sectors included in ETS delivers necessary emissions reductions, but fails to deliver necessary investment signal for the low carbon future due to very low allowance prices. Low allowance prices are due to the financial crises and poor coordination between the climate target and targets for renewables and energy efficiency. National targets for renewables have resulted in a large inflow of new unregulated renewable capacity in the system challenging the stability of the power market and creating emissions reductions at higher cost than if the ETS was the main measure to give incentives to invest in new capacity. This again has led to reduced operating hours for thermal power plants, reduced income and created discussions of capacity mechanisms to secure existing and new investments in capacity in order to secure system stability and security of supply.

Based on the experience from the last 5 years with the 20-20-20-package, our advice for future policy framework is that we need to build on an efficient power market with ETS as an integrated measure to stimulate investments in low-carbon technologies – both generation and end-use – in order to reach climate targets and security of supply. New targets for renewables and efficiency in 2030 will weaken the ETS and the power price will fail to deliver the necessary investment signal for the low carbon future.

Higher shares of intermittent RES will lead to more volatile prices and higher peak prices in the electricity market. Therefore we need in addition a political acceptance for those market developments for the functioning of the electricity markets. Electricity markets cannot deliver credible price signals if there is political interference through caps or regulated prices as soon as volatility increases.

4.2 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?**

Agder Energi is of the opinion that having only one target for 2030 – a target for reducing GHG emissions with the EU ETS as the driving measure – would be the most effective in driving the objectives of climate and energy policy. A well-functioning ETS integrated in the power market should give the necessary incentives for investments in new generating capacity including renewables and for investments in energy efficiency. Hence, there should be no new binding targets for renewable energy and energy efficiency after 2020.

The target for reducing GHG emissions should apply on both EU level and Member State level and the target should be legally binding. Ideally, in the long run there should be a global binding target for reducing GHG emissions with also binding targets on state level or even on a lower level. Preferably, as many sectors as possible should be included in the EU ETS.

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

Yes, there are inconsistencies in the current 2020 targets. RES targets push in new CO_2 free generation capacity, which reduces the need for thermal production and hence lowers the demand for CO_2 quotas and contributes to lowering the price of the emission quotas. That leads us to the paradox that we today see high production from renewables and at the same time we see high production based on coal, while the gas production is relatively low. The problem is that the EU ETS does not function as a signal to investors to invest in renewable energy. Only the RES targets and support schemes give signals to invest in renewables. And with the low CO_2 quota prices investors also receive signals to invest in coal fired plant without CCS – which is not in line with EU climate policy. The targets and measures to increase energy efficiency can lead to similar effects as the RES targets and measures.

Agder Energi is of the opinion that the best framework towards 2030 is to only have a binding target to reduce GHG emissions. The EU ETS should be the main measure to reach that target. From our point of view the EU ETS will be the most effective measure to secure a low-carbon energy supply. Hence, by letting the EU ETS drive the transition towards the long-term goal of a low-carbon economy the EU will use the most efficient and less costly measure which will ensure European competitiveness.

- **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 CO_2 reductions for passenger cars and light commercial vehicles?**

For sectors that are part of the EU ETS, separate binding targets should not be implemented. For sectors that are not part of the EU ETS it should first and foremost be considered to include them in the EU ETS. If not, binding targets for emissions of CO_2 should be implemented, but not binding targets for renewables. Measures should be implemented to ensure similar incentives to reduce abatement of CO_2 in these sectors as given by the allowance price in the EU ETS.

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

Agder Energi is of the opinion that with one single target to reduce GHG emissions and the EU ETS as the measure to reach that target production technologies with high GHG emissions will be less competitive and production technologies with low GHG emissions will be more competitive. We think that the market should pick the technology winners. There should not be a system based on politicians or others to pick the technologies that should get support and later on decide when the technology is mature and no longer needs support.

From our point of view the primary goal must be to reduce GHG emissions, not building a renewable industry heavily based on costly subsidies that exists side by side with coal based production with high GHG emissions which survives due to very low carbon prices.

- **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?**

The first priority should be to implement existing policies in the energy sector such as the third energy market package and the implementation of the internal energy market. Security of supply is strengthened by the third energy package, which has led to more cooperation with regards to transmission investments through the TYNDP process and currently common generation adequacy assessments. These sector policies all support competitiveness and security of supply and should get priority from the Commission and member states. Commission and member states should encourage TSOs and national regulators to work closely together on these aspects.

4.3 Instruments

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

Agder Energi supports a strong ETS in the power sector to reach the emissions reduction target, and in our opinion separate RES and energy efficiency targets should be discontinued. To increase security of supply and competitiveness, the integration of electricity markets (which has been started with the third energy package and the following framework guidelines and network codes) has to be continued and the 2015 target has to be met. The Commission and member states should put pressure on TSOs and National Regulatory Authorities' to cooperate and develop a harmonised regulatory framework and a truly common integrated market.

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

As stated above, the most important measure to optimize cost-efficiency of meeting climate and energy objectives is the implementation of a well-functioning ETS, assisted by the integrated internal energy market. An integrated internal energy market in Europe requires investments in the transmission grid, cross-border capacity, and increased flexibility in demand and generation through new smart grid technologies. Simultaneously, subsidies to RES and other generation technologies should be phased out or made market compatible to allow wholesale markets to function.

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

There is a need for continued pressure from the Commission and the member states to secure a fast implementation of the internal energy market and to have an integrated electricity market by 2015. The work on associated framework guidelines and network codes should be further prioritized. New barriers to an integrated market such as closed national capacity remuneration mechanisms should be avoided. If no European solution is found, national measures should as an absolute minimum follow some common European principles.

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

The main driver for investment in energy efficiency is the final cost of energy for end-consumers. Therefore the real cost of supplying new energy should be seen by the consumer. An efficient ETS will be an important part of such an energy efficiency policy. Incentives should be implemented to adjust for market failures such as non-harmonized regulations, regulation giving market distortions, lack of information about possibilities for energy efficiency and lack of competence by entrepreneurs and suppliers. The EU should continue the work on eco-efficiency-requirements for products.

While developing these requirements, it is important to acknowledge the need to transfer more and more of total energy end-use from energy carriers based on fossil fuels to CO2-neutral energy carriers. Discrimination of electricity (which is an energy carrier, not an energy source) in this regard should take an end. The current use of the 2,5 primary energy factor favors the use of natural gas instead of electricity for many purposes creating a lock-in of the use of small-scale fossil fuels in the future energy system that will generate unnecessary challenges for Member states to reach the 2050 climate target.

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

The EU research and innovation policies should give incentives to develop new low-carbon solutions towards 2050. Attention should be given to new solutions tackling increased demand side flexibility and smart grid solutions as there will be more unregulated power coming into the system. Energy storage technologies (hydro storage, batteries, hydrogen and others) will be a key challenge in a situation with increasing investments in unregulated renewable energy.

4.4 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?**

Europe should do all to meet the targets of energy market integration by 2015, implement the 3rd energy package and restructure ETS in order to stimulate low-carbon solutions. Competitive energy prices within ETS will contribute to increase job creation, growth and competitiveness in the renewable sector and sectors contributing to energy efficiency.

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

Only those industries that are in global competition and where energy costs really matters should receive compensation.

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

N.A.

- **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?**

It is important that EU continues its leading role in international climate negotiations and continues the efforts to link ETS to other international emissions trading regimes.

- **How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances?**

Generally it should be avoided to have several competing and conflicting policies and targets within one sector, as it creates uncertainty with investors regarding the prioritization of targets and leads to inconsistencies between measures. National policies having a cross border impact should be formulated and changed in close consultation with neighbouring countries, to avoid uncertainties stemming from lack of coordination.

The EU should set itself a clear long term emission reduction target and restructure the ETS mechanism as soon as possible. ETS as a market based mechanism implies certain ability for self-regulation as opposed to fixed prices. Clear and long term pit-stops should be put in place in order to evaluate and assess the functioning of ETS and necessary adjustments following clear procedures. If business knows the long term targets and the rules of the market, they have enough regulatory certainty but at the same time the flexibility to adapt within the market. The same principles can be adapted to the internal energy market, where stable rules ensure trust and certainty in the market, while at the same time allowing for flexibility.

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

N.A.

- **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?**

N.A.

- **How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market and externally by diversifying energy supply routes?**

The EU can best improve security of energy supply by realizing a full and effective internal energy market . A future EU strategy for diversification of energy supply routes should take into account Norway's opportunities to deliver substantial balancing and reserve services to the European power system allowing integration of higher shares of intermittent RES through new cables to and from our hydropower system.

4.5 Capacity and distributional

- **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?**

Using the EU ETS as the main instrument for reducing GHG emissions will in our opinion be the most effective measure. But it is a fact that some countries and/or industries will have greater efforts and costs than others to reduce their GHG emissions. One possible concrete step could be to redistribute revenues from the auctioning of allowance to those Member

States and/or industries that have the highest costs to make the transition to a low-carbon economy.

- **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 general European or multinational market based measures should be preferred to national non-market based ones, as they are more cost effective in the implementation. The EU ETS can be used as a concrete example. Redistributing the revenues from the auctioning of allowances to those Member States and/or industries that get the biggest burden following a well-functioning EU ETS with a more ambitious target towards 2030 and ultimately towards a European low-carbon economy can be a possible mechanism to promote cooperation and fair effort sharing.

Conclusion

Agder Energi is of the opinion that in the 2030 framework for climate and energy policies in Europe EU ETS should be developed to be the central pillar of European climate policy (and hopefully lay the ground for a global ETS) and be the key driver for investments in carbon reduction with a firm target for 2050 and an intermediate target for 2030.

Yours faithfully
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