SWEDENERGY
ENERGIFÖRETAGEN SVERIGE

Swedenergy's EU Agenda

For Climate and Energy, 2019-2024 and beyond

Executive summary:

Further promotion of climate-friendly electricity, heating and cooling is an indispensable path for the EU, since fulfilling the Paris commitment requires urgent and far-reaching action. Through the Clean Energy Package, the EU ETS and the EU's overall climate policy, the Union has laid a good foundation. However, the climate target was set before the Paris agreement and EU's climate ambitions need to increase. So, for the EU to achieve its Paris commitments, and for the energy sector to become a locomotive for the transition of other sectors, policy makers need to continue developing a supportive regulatory framework during the next term of office.

Swedenergy strongly believes that a coherent EU framework for electricity, heating and cooling that delivers on the Paris commitments should be based on the pillars set out in the Energy Union, i.e. **sustainability, security of supply and competitiveness,** alongside with an energy system perspective as guiding principle. Our priorities for the next term of office can be summarized as follows:

1. Sustainability

Climate

- Increase EU's climate target for 2050 in line with Paris agreement and the Commission's strategic vision
- Increase EU's climate target to 2030 to at least 55 percent CO2-reduction
- Set an interim target for 2040
- Increase EU ETS ambition to at least 95 percent CO2-reduction by 2050, i.e. increase the annual linear reduction factor to at least 2,6
- Regularly analyse the market stability reserve, MSR, and the effects of overlapping policies and propose increased uptake if necessary
- Evaluate extending EU ETS to the entire heating sector
- Revise the energy taxation directive to be compatible with the adopted energy and climate policies
- Avoid establishing a parallel set of rules on sustainable finance. All sources that comply with relevant EU legislation on safety and sustainability should be considered sustainable

Renewable energy and energy efficiency

- Make sure state aid guidelines allows support for immature technologies
- Further promote co-generation of electricity, heating and cooling in large scale plants, thereby gaining the positive effects on health, urban environment and the benefit of local firm capacity
- Revise the CO2-reduction target levels of the clean mobility package and consider stronger well-to-wheel perspective in future legislation on transport emissions

Circular economy

- Strongly enforce the Waste Framework Directive's waste-hierarchy principle to maximise reuse and recycling of materials
- Prioritise measures to ensure sustainable production, use and recycling of plastics
- Ban export of plastic waste to non-EU countries
- Introduce an EU-wide ban on landfilling
- Actively promote energy recovery of waste that cannot be recycled

2. **Security of supply**
   - Create a positive investment climate for investments in low-carbon power generation and maintain and increase grid capacity and stability
   - Ensure a regional perspective regarding security of supply by further strengthening the role of the regional cooperation of the Regional Coordination Centres (RCC)
   - Promote the increased use of flexibility resources in the energy system, both on the supply and demand side, to manage a growing share of wind power and PV
   - A possible revision of the water framework directive (WFD) must take the positive contribution of hydropower climate change mitigation into account
   - The designation of water bodies as Heavily Modified Water Body (HMWB) is key to allow hydropower facilities under the WFD. It is reasonable and desirable that most, if not all, hydropower facilities are designated as HMWB
   - Take security of supply into account when reviewing legislation connected to circular economy

3. **Competitiveness**
   - Facilitate customer activity to increase competition, intensify innovation and create well-functioning markets
   - Allow market principles to set energy prices
   - Abolish regulated prices
   - Reduce undue limitations in cross-border energy trade
   - Revise the state-aid guidelines in a market-oriented manner that supports the energy and climate agenda
   - Create a level playing field between EU ETS-sector and non-trading sector

Swedenergy's agenda for EU's energy and climate policy 2019-2024

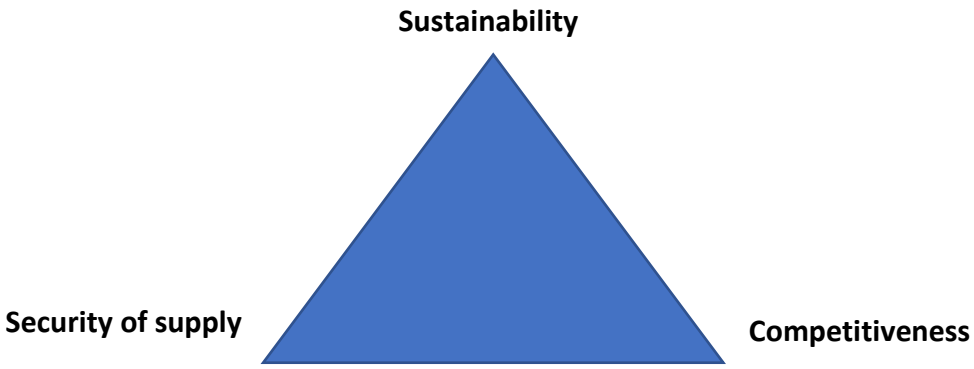
Secure access to electricity, heating and cooling is essential to our way of life. Energy should be available when we need it, year-round, around the clock. This is something that we take for granted in a modern society. But this is not enough. The energy we use must have a minimal impact on the environment and the climate. Climate change is the biggest threat to humanity and the recent IPCC report shows that fulfilling the Paris commitment requires urgent and far-reaching action. Decisive steps need to be taken today for the sake of future generations.

Climate-friendly electricity, heating and cooling is already used in Sweden to transform society and contribute to reducing global emissions. As a result, we can now see a transformation in other sectors of the economy. In industry, the demand for electrification of industrial processes, such as in steel and cement, increases. The transport sector is moving towards electricity, biogas and biofuels, and a growing number of households become engaged in both their electricity consumption and production. Sweden has come a long way, but we're still far from reaching the national goal of a climate neutral society by 2045.

Through the Clean Energy Package, the EU ETS and EU's overall climate policy the Union has laid a good foundation. However, the climate target was set before the Paris agreement and EU's climate ambitions need to increase. So, for the EU to achieve its Paris commitments, and for the energy sector to become a locomotive for conversion from fossil fuels in other sectors, policy makers need to continue developing a supportive regulatory framework during this term of office.

Swedenergy, strongly believes that a coherent EU framework for electricity, heating and cooling that delivers on the Paris commitments should be based on the pillars set out in the Energy Union i.e. **sustainability, security of supply and competitiveness**. All parts in the energy system are dependent on each-other to function efficiently and sustainably. Therefore, we believe that the starting point when designing energy policy should be a holistic view – a system perspective - for the benefit of the customer and society.

The top priorities for Swedenergy for the coming legislative period are thus based on sustainability, security of supply and competitiveness as described below:



1. Sustainability

Climate

Swedenergy supports the long-term vision of climate neutrality by 2050 as described in the Commission's communication "A Clean Planet for All". However, in order to achieve this, concrete and binding targets need to be set. More specifically, it requires an increase of the EU's climate targets for 2030 in line with the proposed European Green Deal, i.e. 55 percent. It also requires a revised target for 2050 and setting an interim target for 2040. These new targets for carbon emissions would also have a tightening effect on the EU ETS, with an increase of the current linear reduction factor from 2,2 percent per year to at least 2,6 percent.

For the power sector, Swedenergy strongly believes in the EU ETS framework as a driver to create carbon neutrality. While Swedenergy strongly supported the recent revision of the system, the current EU ETS needs to be further reformed to better reflect the Paris agreement and achieve the necessary carbon mitigation. The effect of the market stability reserve as well as overlapping policy measures should regularly be analysed and, if necessary, tightening changes should be tabled by the Commission, to achieve the intended the steering effect of the EU ETS. It would also make the EU ETS more robust if more sectors were included in the system.

For the heating and cooling sectors, further measures are needed to make the sector carbon-neutral by 2050, e.g. evaluating the possibilities to extend ETS to the entire heating sector. However, for administrative reasons, other measures may be more effective for small-scale heating installations, such as national carbon taxes.

We would also suggest that the Commission looks at the variety of different carbon taxes to see how they interact with the EU ETS to create a level playing field within the EU between different sectors and between sectors included in the EU ETS and non-EU ETS sectors. A revised, updated and more ambitious EU energy taxation directive, including a carbon component, would be instrumental in creating increased harmonization across Europe.

Many recent reports on how to tackle climate change and reach the Paris commitments have acknowledged the carbon-free contribution of nuclear energy to the energy mix. For Member States and companies who chose to further develop nuclear, a supportive legal framework that inter alia reinforces nuclear safety is key. Here Swedenergy welcomes the recent work done on the nuclear safety and nuclear radiation regulations. However, a few technical regulations remain that need careful drafting in order to avoid adverse impact on operating units. For instance, the ongoing review of so called eco-designs of electric components may lead to difficult retro-fitting problems in safety related systems in the nuclear power plants.

One current piece of legislation that could seriously impact the competitiveness of various of carbon-free energy sources is the legislation on sustainable finance. In order not to create unnecessary obstacles to the further expansion of sources with low carbon footprint it's vital that all sources that comply with relevant EU legislation on safety and sustainability are considered sustainable, and that no parallel regulatory structures are established.

In short:

- Increase EU's climate target 2050 in line with Paris agreement and the Commission's strategic vision
- Set an interim target for 2040

- Increase EU's climate target to 2030 to at least 55 percent CO2-reduction
- Increase EU ETS ambition to at least 95 percent CO2-reduction by 2050, i.e. increase the linear reduction factor to at least 2,6
- Regularly analyse the market stability reserve, MSR, and the effects of overlapping policies and propose increased uptake if necessary
- Evaluate extending EU ETS to the entire heating sector
- Revise the energy taxation directive to be compatible with the adopted energy and climate policies
- Avoid establishing a parallel set of rules on sustainable finance. All sources that comply with relevant EU legislation on safety and sustainability should be considered sustainable

Renewable energy and energy efficiency

Despite our strong advocacy for climate targets and carbon pricing as the principal tool to drive energy transition, support for R&D and market introduction of immature technologies might still be needed to achieve carbon neutrality in the energy sector and promote an increased share of renewables in both the power sector and for heating and cooling. Besides developing carbon-neutral energy sources, system-supportive technologies such as flexibility solutions and CCS should be prioritised. Maintaining or increasing the high level of EU expertise in low-carbon technologies is also an important aspect to consider when deciding on where to direct EU funding.

Heating and cooling in buildings and industry accounts for about 50 percent of the EU's total energy use. To a large extent, heating in Europe based on individual boilers with low efficiency that also cause air pollution and health problems for citizens. Also, there are many large-scale inefficient thermal power plants in many European countries. Instead, the share of high-efficient combined heat and power production needs to increase, as well as waste heat and the use of renewable fuels, such as forest residues, residues from industries or residual waste remaining after collection, re-use and material recovery. More efficient use of primary energy in small- and large-scale plants should be addressed in all legislation. Also, the positive health aspect of co-generation of electricity, heating and cooling in large scale plants should be considered.

Securing indigenous sustainable sources is essential if climate targets are to be met. Consequently, the risk-based approach towards sustainability of forest-based biomass, that was established through the recently revised renewable energy directive, must be safeguarded also in the future.

As for transport, the clean mobility packages will bring new and tightened CO2-standards and public procurement requirements for light and heavy vehicles. However, the levels are generally too low to deliver on the Paris commitments. The future legislative framework also needs to take a stronger well-to-wheel perspective than is the case with the current separation of vehicles and fuels.

In short:

- Make sure state aid guidelines allows support for immature technologies
- Further promote co-generation of electricity, heating and cooling in large scale plants, thereby gaining the positive effects on health, urban environment and the benefit of local firm capacity
- Revise the CO2-reduction target levels of the clean mobility package and consider stronger well-to-wheel perspective in future legislation on transport emissions

Circular economy

Alongside carbon-neutrality, achieving a circular economy is a central sustainability objective for Swedenergy. The old "wear and tear – model" must be replaced with a more efficient use of resources to minimize waste, re-use of products, recycling of material and use for energy purposes, in accordance with the waste-hierarchy. Swedenergy welcomes the ambitions in the Waste Framework Directive but would like to see a stricter enforcement of its provisions across Europe. In some cases additional regulation might be needed to achieve a truly circular economy.

For instance, member states that have a ban on landfilling generally have better waste management systems and higher rate of material and energy recovery. Furthermore, a ban on landfilling in these countries has not only minimised release of climate gases into the atmosphere but also has decreased leakage of poisonous compounds into the water, soil and air. For materials that cannot be recycled, waste incineration using best available air pollution control technologies is an important solution to collect hazardous substances and create effective heat and power production Consequently, the EU should minimise landfilling of waste and more actively promote energy recovery of waste that cannot be recycled.

As plastic pollution is one of the most urgent environmental issues, measures higher up in the value chain are key to ensure sustainable production, use and recycling of plastics. Stricter requirements at the design, production and distribution/consumption phases need to be introduced, aiming to promote non-toxic plastics that easily can be reused and recovered. Also, EU countries should not be allowed to export plastic waste to countries with poor waste handling standards. Energy recovery within the EU is much a much more responsible solution where the re-use and recycling options have been exhausted.

In short:

- Strongly enforce the Waste Framework Directive's waste-hierarchy principle to maximise reuse and recycling of materials
- Prioritise measures to ensure sustainable production, use and recycling of plastics
- Ban export of plastic waste to non-EU countries.
- Introduce an EU-wide ban on landfilling
- Actively promote energy recovery of waste that cannot be recycled

2. Security of supply

The transition of the European electricity system implies increasing shares of intermittent power generation (wind power and photo voltaics). Low-carbon electricity is in turn vital for the transition of e.g. transport and industry. Consequently, the importance of promoting flexibility in combination with firm capacity increases, in order to ensure a stable and secure energy supply. A modern and robust grid infrastructure, within as well as between member states, is an essential enabler of the transition but is also key to ensure security of supply. The effects on security of supply must always be considered when designing and deciding on EU climate and energy policy.

A positive investment climate is imperative for investments in low-carbon power generation and maintaining and extending grid capacity and stability. While the Clean Energy Package (CEP) provides a market-oriented legal framework that is helpful in many respects, some room for improvement remains. Concerning networks, the CEP focuses on cross-border interconnection capacity, and the

regional cooperation of the TSOs is emphasised. However, we think both aspects should be strengthened further, ensuring a true and necessary regional perspective on security of supply.

As the CEP identifies distribution system operators (DSOs) as key enablers of local flexibility, they should be given the necessary prerequisites to ensure the system services needed to provide a secure, stable and efficient grid. Customers play a central role in providing flexibility, hence it is imperative that they encounter correct and timely market incentives to adjust their demand.

The European Commission is currently preparing a review of the Water Framework Directive (WFD). We are supportive of the approach to have quantitative assessments of actual costs and benefits, including impact on businesses. Due to its large share of the Swedish power system, many businesses and other parts of society rely on electricity from hydropower and Nordic hydropower has an important role to play as a green battery for large parts of Northern Europe. For the EU to reach the renewable and climate target a significant contribution is needed from Europe's hydropower plants. Therefore, any evaluation of the Water Framework Directive needs to be accompanied by an analysis of the coherence with the various legislative EU initiatives regarding renewable energy and climate. We therefore also think it is of outmost importance that the work of the European Commission on the Water Framework Directive is coordinated between the Directorate-General for Environment and for Energy. The designation of water bodies as Heavily Modified Water Body (HMWB) is key to allowing hydropower facilities under the WFD. It is reasonable and desirable that most, if not all, hydropower facilities are designated as HMWB:s.

In any revision of or new legislation aiming to support the circular economy, the aspect of security of supply needs to be considered alongside with possible alternative use of each fuel. For materials that cannot be recycled, waste incineration is an important solution to create effective heat and power production. It is also an indigenous resource that reduces EU's import dependence on fossil fuels. Given its many advantages, it's important to take a holistic approach to waste incineration and consider its contribution to security of supply.

In short:

- Create a positive investment climate for investments in low-carbon power generation and maintain and increase grid capacity and stability
- Ensure a regional perspective regarding security of supply by further strengthening the role of the regional cooperation of the Regional Coordination Centres (RCC)
- Promote the increased use of flexibility resources in the energy system, both on the supply and demand side, to manage a growing share of wind power and PV
- A possible revision of the water framework directive must take the positive contribution of hydropower climate change mitigation into account
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- Take security of supply into account when reviewing legislation connected to circular economy

3. Competitiveness

Swedenergy believes that it is essential to put customers at the heart of the energy transition. If customer activity is facilitated, competition will increase, innovation will intensify and make markets more well-functioning. Consumer activity is best achieved by creating free and fair market competition in the energy sector. Under the coming legislative period, Swedenergy therefore believes it is important to allow price signals to drive the transition towards carbon neutrality. In this respect, the recent revision of the electricity market legislation didn't fully succeed, since some limitations to market pricing and the free flow of electricity still remain and should be addressed in future reviews of the legislation.

We also believe that it is important that the European Commission revises the state aid guidelines in a market-oriented manner that is aligned with climate policy as well as the new CEP-legislation, increases harmonization through a strengthened energy taxation directive and further develops the rules for congestion management of interconnectors. For the energy taxation directive, it is important that the Commission finds a way to abolish double taxation for energy storage and revise it to be compatible with the current EU energy and climate legislation. Furthermore, the Commission should look at the interaction between the EU ETS and carbon taxes to create a level playing field and make sure that the EU ETS works as efficiently as possible.

An efficient use of resources is crucial to achieve a cost-effective transition of the European energy system. In this, the maximised use of interconnectors for electricity is crucial. Besides being a prerequisite for a competitive internal market, it is also a requirement to integrate increasing volumes of intermittent power production. Hence, Swedenergy supports the full use of all interconnectors.

In short:

- Facilitate customer activity to increase competition, intensify innovation and create well-functioning markets
- Allow market principles to set energy prices
- Abolish regulated prices
- Reduce undue limitations in cross-border energy trade
- Revise the state-aid guidelines in a market-oriented manner that supports the climate agenda
- Create a level playing field between EU ETS-sector and non-trading sector

About Swedenergy

Swedenergy is a non-profit industry and special interest organisation for companies involved in the supply, distribution, selling and storage of energy, mainly electricity, heating, and cooling. As the united voice of the Swedish energy sector, the organisation monitors and promotes the interests of its members and the energy sector in general. Swedenergy has a total of 400 members, which includes state-owned, municipal, and private companies as well as associations within the energy sector.