

Swedenergy's EU Agenda

For Climate and Energy, 2020-2024 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. It is imperative that we do not let the Covid-19 pandemic deepen the climate crisis. The recovery from the crisis needs to be focused on sustainable growth.

Through the Clean Energy Package, the EU ETS and the EU's overall climate policy, the Union has laid a good foundation. However, the 2030 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 present term of office. The Green deal can be an important tool to achieve this.

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 current term of office can be summarized as follows:

1. Sustainability

Climate

- Promptly formalise EU's climate neutrality target for 2050, to align EU climate policy with the Paris agreement.
- 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 reach at least 55 percent CO₂ reduction 2030 and achieve climate neutrality in the EU well before 2050. The linear reduction factor should be adjusted to the revised 2030-target.
- Analyse the effect on the market stability reserve as well as overlapping policy measures and, if necessary, table tightening changes to the ETS system.
- Extend the EU ETS to cover more sectors, inter alia by including the entire heating sector.
- Revise the energy taxation directive and include a carbon component compatible with the increased climate ambitions and inclusion of more sectors into mitigation policy.

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 energy efficiency, 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.
- Further energy efficiency measures should focus on product design and labelling, be more coordinated with existing policies and avoid detailed administrative regulations.

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 and other materials.
- Strive to 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 regulatory climate for investments in low-carbon power generation and grids 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 2020-2024

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 IPCC reports show that fulfilling the Paris commitment requires urgent and far-reaching action. Decisive steps need to be taken today for the sake of future generations.

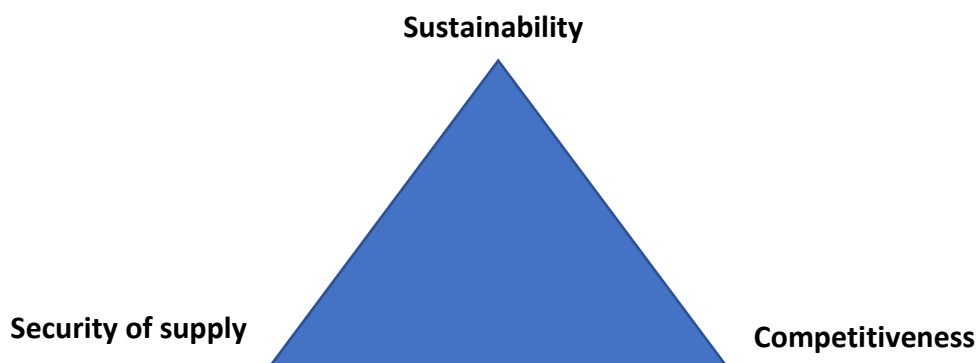
The Covid-19 pandemic has brought Europe to an unfortunate but necessary standstill and has resulted in both a humanitarian and an economic crisis. It is imperative that we do not let the pandemic deepen the climate crisis. The recovery from the crisis needs to be focused on sustainable growth.

Climate-friendly electricity, heating and cooling is already used in Sweden to transform the 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 production, 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. By having a large part of buildings, households and services connected to renewable district heating, the emissions from this sector is only 2 per cent of the national emissions. Sweden has come a long way, but we are 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. If wisely designed, the Green deal work programme can be an important tool to achieve this.

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 and sector integration- 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", and later agreed by the European Council in December 2019. However, in order to achieve this, concrete and binding targets need to be set. More specifically, it requires a formalisation of the 2050 target in a climate law, as well as an increase of the EU's climate targets for 2030 in line with the proposed European Green Deal. Swedenergy supports the 55 percent CO₂ reduction target and proposes 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 to support the new target.

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 Markets Stability Reserve's (MSR) main aim is to ensure a stable and significant ETS price. The intake rate should therefore remain at 24 percent after 2023 unless the impact assessment suggests otherwise. Furthermore, effects of overlapping policies must be monitored. It should be secured that e.g. national decisions on decommissioning fossil fuel fired power plants lead to a withdrawal of a corresponding amount of ETS allowances.

It would also make the EU ETS more robust if more sectors were included in the system, as foreseen in the Green Deal. For the heating and cooling sectors, further measures are needed to make the sector carbon-neutral by 2050, e.g including the entire heating sector in EU ETS. When including small scale heating installations in EU ETS an upstream approach for monitoring, reporting and verification should be implemented to maintain the cost-efficiency of the system.

The present EU ETS Directive is implemented differently in EU Member States regarding the inclusion of waste incineration plants. The rules on the possible inclusion of waste incineration plants within EU ETS must be clarified and harmonised.

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 EU energy taxation directive adapted to increased climate ambitions would be instrumental in creating increased harmonisation across Europe. Such a revision should include a carbon component to tackle the higher ambitions and inclusion of more non-trading sectors in the climate mitigation work.

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.

In short:

- Promptly formalise EU's climate neutrality target for 2050, to align EU climate policy with the Paris agreement.
- Increase EU's 2030 climate target to at least 55 percent CO₂-reduction.
- Set an interim target for 2040.
- Increase EU ETS ambition to reach at least 55 percent CO₂ reduction 2030 and achieve climate neutrality in the EU well before 2050. The linear reduction factor should be adjusted to the revised 2030-target.
- Analyse the effect on the market stability reserve as well as overlapping policy measures and table tightening changes to the ETS system.
- Extend the EU ETS to more sectors, inter alia by including the entire heating sector.
- Revise the energy taxation directive and include a carbon component to be compatible the increased climate ambitions and inclusion of more sectors into mitigation policy.

Renewable energy and energy efficiency

In the Green deal workplan, a revision of the recently adopted renewable energy and energy efficiency directives is anticipated before June 2021. Swedenergy believes that target levels of the 2018 directives should be maintained and that the increased climate ambition should be borne by the climate legislation, i.e. the ESR and the ETS. Renewable energy is highly competitive today and needs no further support. Swedenergy believes carbon pricing to be the most efficient tool to foster energy efficiency and renewable energy. To ensure a stable regulatory framework for market actors, the provisions of the recently adopted directives should not be opened.

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, and allowing operational aid for BECCS in order to promote negative emissions. 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. Energy efficiency measures in the building sector should be technology-neutral to the choice of efficient heating and cooling sources and focus on efficient climate-shells in buildings. 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 aspects 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 as well as an integration of an electrified transport sector in the energy system.

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.
- Further energy efficiency measures should focus on product design and labelling, be more coordinated with existing policies and avoid detailed administrative regulations.

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 can easily 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 a significantly 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.
- Strive to 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. In many countries, the transmission and distribution net have become an obstacle to societies' security of supply, as well as their growth and transition plans. The regulatory preconditions concerning grid companies' investment capacity and permitting processes are essential in this respect. 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. In many countries, 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 utmost 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 HMWBs.

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. Bioeconomy and use by-products and wood residues from forestry in the combined power and heat sector increase both the national and local security of supply and is at the same time a large-scale energy efficiency measure. 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 is important to take a holistic approach to waste incineration and consider its contribution to security of supply.

In short:

- Create a positive regulatory climate for investments in low-carbon power generation and grids 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
- 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:s.
- 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 did not 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.