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## The Energy Efficiency Directive (EED) with the primary energy first principle – one of the cornerstones of the EU energy and climate policy

**Fortum considers reinforcing and extending the EU Emissions Trading System (ETS), sector integration and both direct and indirect electrification as key elements for achieving the EU 2030 climate target of reducing greenhouse gas emissions by 55% compared to the level of year 1990. These tools will lead to decarbonizing the European economy by 2050.**

Energy efficiency has a major role in the decarbonization of the heating and cooling sectors. Thus, it is crucial that the Energy Efficiency Directive (EED) is consistent with other relevant directives and systems such as the Emissions Trading System ('ETS'), the Renewables Energy Directive ('RED II'), the Energy Taxation Directive ('ETD'), the State Aid Guidelines ('EEAG') and the Energy Performance of Buildings Directive ('EPBD') which will be revised later.

The EED was initially adopted in 2012. It was amended in 2018, and currently these amendments are under national implementation and/or deployment. The EED should be revised only to the extent that is necessary to meet the 2030 targets.

The de-carbonization of the heating and cooling sectors ('H&C') should primarily take place through effective carbon pricing and by widening the scope of the ETS to cover various sectors such as the heating of buildings. Additionally, the main revisions of the ETS should be finalized prior to the extensive revision of the EED. The most appropriate solution for including all buildings into ETS is to establish a standalone transitional ETS system for the buildings sector. In the transitional ETS system the emission liable party would be the fuel suppliers. This would level the playing field between all heating and cooling solutions since most district heating and cooling systems and electricity-based heating already fall under current ETS but only represent a minority of all heating and cooling sector. The integration of the ETS to equally cover all heating of buildings should be considered from the start to allow for a later integration.

From Fortum's point of view, the following issues are of particular importance regarding to the EED:

- The original objective of the EED remains to be valid.
- There is a justified need for well-considered and focused legal amendments for strengthening the existing measures. In addition, new amendments should be selective and carefully considered, since national heating and cooling markets typically have different characteristics. EU level steering will need to leave room for national flexibility in the implementation.

9 February 2021

- The focus of the review should be to save energy by boosting CO<sub>2</sub> free electrification of industries and H&C sectors, and the use of CO<sub>2</sub> free gases like hydrogen.
- The perspective of efficient energy system integration should be a key component in the improvement of energy efficiency.
- The EU level energy efficiency targets need to be binding. Additionally, we need to continue the indicative national energy efficiency targets created by a bottom-up approach, putting effort on effective national implementation of the most cost-effective and otherwise feasible measures. This substantially increases the linkages across various energy-intensive sectors.
- The continuation of voluntary energy savings regimes is worthwhile, like already imposed in Finland.
- Developing the definitions of efficient H&C and DHC more broadly and with better linkages with the de-carbonization and energy efficiency ambitions than today.
- The improved focus of the Comprehensive Assessments (CAs) on the following aspects regarding to promotion of efficient heating and cooling:
  - National CAs are currently the most comprehensive and effective sources of information to compile at EU level concerning the de-carbonization and energy efficiency of the H&C sector. Therefore, the encouragement, further development, and usage of CAs by MSs should be of high priority and relevance.
  - Widening the scope of CAs to include CO<sub>2</sub> free electrification and clean gases (e.g., hydrogen), promoting all waste (heat and cold), ground and air heat pumps of different scales, geothermal, solar thermal, thermal storages, etc.
  - Identifying the whole economic and technical potentials for de-carbonization by efficient H&C solutions. All H&C solutions should have both an equal and forward-looking price tag on their CO<sub>2</sub> emissions and a perspective of promoting energy system integration between H&C, CO<sub>2</sub> free electricity and CO<sub>2</sub> free gases including hydrogen.
  - Further clarification of the current and especially the future role of low carbon CHP as a part of efficient heating and cooling developments, requiring MSs to initiate and introduce incentives for de-carbonization, energy efficiency and security of supply to support the continuity of high-efficient CHP and to develop the interface between CHP and electricity network regulation.
  - Requiring MSs to profoundly assess their national regulatory regimes to remove barriers, to introduce best practice regulatory policies and incentives for the de-carbonization and energy efficiency, to adopt knowledge and to utilize more effectively relevant precedence from other MSs the already innovated and adopted best regulatory practices. Further, to adopt best practices to utilize urban and industrial waste heat and when appropriate, to prepare national plans to scale-up the DHC infrastructures.

9 February 2021

- The energy efficiency target should be comparable across MSs and presented in primary energy consumption.
- Further clarifying is needed on the uniformity between EED, RED II and EPBD as a part of the revision processes. This includes, for example:
  - The distinction and legal provisions covering both renewable energy and waste heat as well as waste cold should be reconsidered in a way to better support the effective and prioritized utilization of industrial and urban waste heat (and cold) in DHC networks as core enablers of primary energy first -principle and at least in parity with all other CO2 free H&C solutions.
  - Improving the coherence and clarity for the provisions related to waste heat and cold promotion between RED II and EED.
  - The requirements for delivering information for DHC customers.
  - The promotion of energy performance of public buildings should primarily be covered by EPBD.

#### **Interested in hearing more?**

**Fortum Oyj, Corporate Public Affairs** (transparency register 03501997362-71)

Harri-Pekka Korhonen, [harri.korhonen@fortum.com](mailto:harri.korhonen@fortum.com), +358 50 452 9321

Monika Kuusela, [monika.kuusela@fortum.com](mailto:monika.kuusela@fortum.com), +358 40 822 7054