

1 March 2017

CLEAN ENERGY FOR ALL EUROPEANS

Proposal on the Governance of the Energy Union (COM(2016) 759 final)

Fortum's key messages:

- Governance is a welcome tool that should go beyond just more streamlined reporting; it should primarily ensure coherence between the objectives of the EU Energy Union and the measures implementing those objectives.
 - The main shortcoming of the proposal – also in light of the inter-institutional agreement on better law-making of 2016 – is that although it mentions the need to take into account interlinkages between the five Energy Union dimensions (Art. 8, 9), it doesn't include any tools to address policy overlaps, especially concerning the interaction of energy efficiency and renewable energy measures with the EU Emission Trading Scheme.
 - Adopting measures that lead to a de facto increase of the 2030 targets for renewable energy and energy efficiency in sectors already covered by the EU ETS have a negative impact on the steering effect of the EU ETS. Moving from the initially indicative 27% EU-level energy efficiency to a 30% binding target will automatically lead to building the EUA oversupply and diluting the effect of the CO₂ price steering¹, as pointed out in the Commission's impact assessment, if the cap is not correspondingly strengthened.
 - The proposal should therefore be complemented with a tool that helps to monitor and quantify the potential effect of overlapping policies and measures on the EU ETS as well as a mechanism to rectify the situation. For example, following a quantification of the overlap impact on the EU ETS, the same amount of emission allowances should be withdrawn from the market – either by storing them in the Market Stability Reserve or by cancelling them².

¹ According to the impact assessment, moving from a 27% to a 30% energy efficiency target would lower the CO₂ price by 35% (SWD(2016) 405, 406).

² For this reason, the European Parliament's proposal in the context of the EU ETS revision on 15.2.2017 to address the interaction of the EU ETS with other Union level and national climate and energy policies, including how those policies impact upon the supply-demand balance of the EU ETS, is extremely helpful. The EP proposes to define measures to account for the impact of overlapping policies on the supply-demand balance of the EU ETS. The

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- Enforcement of regional coordination and cooperation on national energy and climate policy strategies is very welcome.
 - The proposal refers to regional cooperation (Art. 7, 11, 34) and the need to consult neighbouring countries and other countries expressing interest on national energy and climate plans, but the proposal is silent on how to do that in practice. Further guidance and elaboration is therefore needed from the Commission.
 - There should be a standard practice and a dedicated platform for regional consultations and a mechanism to ensure that energy stakeholders are also properly heard in the process. The EU Commission should take a visible role in facilitating this process and in ensuring that all regions follow more or less the same practice.

- The main risk relating to the proposed planning process for national energy and climate plans is that binding EU-level targets on renewable energy and energy efficiency can de facto turn into binding national targets, which the European Council wanted to avoid as a lesson learned from the 2020 package.
 - According to Art. 13(3), member states shall, when updating the Indicative National Energy and Climate Plan (INECP) in 2024, only modify targets to reflect increased ambition as compared to the previous INECP. This takes away the intended flexibility from member states and de facto makes the national targets binding, incentivising member states to set modest targets at the beginning.
 - This in turn will lead to activation of the gap-filling mechanism (Art. 27). In order to avoid strategic behaviour, the gap-filling mechanism should not be too detailed beforehand. In any case, additional measures in the case of under-achievement vis-à-vis the collective EU trajectory should focus on sectors remaining outside the EU ETS in order to avoid policy overlaps.
 - Maintaining flexibility in the national target setting is important in order to allow national RES/energy efficiency investments to better reflect the development in electricity demand. Investments driven by a combination of rigid targets and subsidies without connection to market signals lead to an oversupplied market. The Governance Regulation should be better equipped to achieve a higher level of policy coordination that genuinely ensures market efficiency (e.g. INECP should include measures to resorb the current level of overcapacity).

Governance Regulation should include a mechanism to annually assess the overlap between ETS and other policies (renewable, energy efficiency) and to recalibrate the ETS supply accordingly, either by placing a corresponding amount of emission allowances in the Market Stability Reserve or by cancelling them.