2030 Climate Target Plan

A Eurelectric comments paper

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Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

Electrification & Sustainability Committee
Generation & Environment Committee
Markets & Investments Committee
Distribution & Market Facilitation Committee
Customers & Retail Services Committee

Contact:
Hélène LAVRAY, Senior Advisor, Renewables & Environment – hlavray@eurelectric.org

The EU communication on the strategic long-term vision for a prosperous, modern, competitive and climate neutral economy, has set to reach a "Net Zero" GHG emissions by 2050. To this end, the power sector is committed to achieving progressively a carbon-neutral electricity mix in Europe by 2045 and to ensuring a competitively priced, reliable electricity supply throughout the integrated European energy market. The power sector will support EU efforts to move towards a net zero economy at the European level in a way that is not only environmentally, but also economically and socially sustainable. Carbon-neutral electricity will in turn allow for the decarbonisation of transports, buildings and industries through smart, integrated and efficient electrification.

The disruptions caused by the coronavirus crisis is highlighting how much modern societies rely on electricity. In this context, it will be crucial that European investment plans and economic recovery programmes are fully coherent with EU climate objectives and support electrification and decarbonisation of the EU economy by targeting investment in technologies critical for the energy transition.

See **Eurelectric's Impact of Covid 19 on customers and society. Recommendations from the European Power sector** (March 2020) & **Joint Call to EU leaders: #EUGreenRecovery to restart Europe** (April 2020)

1. All sectors should contribute to the 2030 objectives

Progress in emission reduction has been slower for the sectors regulated by the Effort Sharing Regulation (ESR) than for the Emissions Trading System (ETS) sectors. In a context of discussions on an increased emissions reduction of up to 55% by 2030, a fair burden-sharing between ETS and non-ETS sectors is a prerequisite. Currently, the EU ETS covers around 45% of the EU's greenhouse gas emissions in a tightly regulated framework which should be adjusted to comply with new levels of ambition in a cost-effective way. In order to reach net zero emissions in the EU economy, it is crucial to develop a holistic and non-discriminatory decarbonisation strategy across sectors. Sectors which are not exposed to any CO_2 price (e.g. maritime) or an insufficient CO_2 price (e.g. individual heating, in some Member States) should be addressed either by extending the ETS scope or through other carbon pricing measures, using the most efficient tools for each sector.

2. Anchor clean and smart electrification at the core of the European Green Deal

Carbon neutral electricity is clearly the main contributor to the transition towards a climate neutral Europe, mainly through direct electrification but also transformed into another energy vectors. Not only will it enable the decarbonisation of fossil-dependent sectors, it will also make energy supply more efficient, secure and affordable. Within the Green Deal this means developing an electrification strategy which focuses on:

- Channelling investments in smart electricity transmission & distribution grid infrastructure through the revision of the TEN-E regulations.
- Accelerating the roll out of electric charging infrastructure through revising in the Alternative Fuels Infrastructure Directive including its alternative fuels definition and addressing the remaining barriers to smart charging in order to ensure the effective integration of electric vehicles in the power system;
- Implementing an ambitious strategy with clear goals to decarbonise energy demand from heating & cooling. This should unlock system benefits resulting from sector integration, foster energy efficiency and the use of clean energy in the heating & cooling sector;

- Providing a clear regulatory framework and enhanced R&I support for the market-based deployment of carbon neutral power-to-x technologies and unleashing the benefits of sector integration.

3. Delivering on the Green Deal ambitions through a robust EU ETS and effective carbon pricing

The EU ETS is one of main tools to achieve climate neutrality by 2050 and will deliver the most cost-efficient emission reductions in the sectors covered. The Linear Reduction Factor (LRF) should be appropriately adjusted in the EU ETS Directive as soon as feasible after the adoption of a 2050 climate neutrality target. The adjustment of the LRF should take into account both expected changes to the EU 2030 targets as well as the impact on the emission reduction trajectory after 2030 to reach carbon neutrality by 2050. The Market Stability Reserve (MSR) thresholds should be updated to reflect an increasingly decarbonised economy and the decreasing hedging requirements for electricity producers, to ensure a predictable increase of CO_2 price considering the evolution of the future 2030 Climate-Energy targets. The MSR intake rate should be maintained at 24% after 2023 to avoid steep year-to-year changes. Proportionally to the new commitments and additional carbon cost, the ETS Directive review in 2021 has to increase the number of allowances dedicated to the Modernisation Fund and the share of allowances dedicated to the "solidarity pool".

See Eurelectric's Powering the Green Deal through a robust EU ETS and effective carbon pricing

4. Stable and market-based frameworks to incentivise investments

The decarbonisation of the power sector will require significant investments (around 100bn euros per year over the period) in clean generation and storage. Significant investments will also be required in infrastructure and transmission and distribution grids, including their digitalisation. Going forward, predictable, long-term, stable, transparent and market-based frameworks are needed to ensure the necessary investments in renewables, carbon neutral energy sources and key transition enabling technologies such as storage, Power-to-X and demand side flexibility, while addressing the security of supply challenge. Sharp decrease in costs of clean technologies, in particular renewables, will need to be reflected in the upcoming assessment. Efforts to streamline authorisation and permitting processes and legal frameworks should continue. Public acceptance issues should be addressed in line with best practice tools. This should start with the swift and rigorous implementation of the Clean Energy Package.

5. Align energy taxation and electricity pricing rules with EU's climate objectives[1].

One of the key obstacles to electrification is that current energy taxation systems do not reflect the externalities of fossil fuels. In the current system, electricity is subject to CO_2 pricing through EU ETS, while fossil alternatives are generally not, continuously setting an incentive against decarbonised electricity. Based on an impact assessment the Green Deal must address this issue urgently by ensuring a level playing field between energy carriers, reflecting their actual emissions. Beyond taxation, electricity price structures are in urgent need of reform. The Energy Taxation

[1] The Polish Electricity Association (PKEE) has fundamentally different views on the revision of the Energy Taxation Directive. PKEE has submitted its own position on the Inception Impact Assessment: https://www.pkee.pl/en/the-polish-electricity-association-position-on-inception-impact-assessment-of-the-revision-of-the-energy-taxation-directive-/

Directive (ETD) must be made compliant with the carbon neutrality objectives by reviewing its scope and product coverage in order to ensure an appropriate burden sharing of the decarbonisation effort. The current situation is not sustainable: on average, taxes and levies on electricity have increased by over 70% over the last 10 years in Europe. As a result, consumers who switch to clean and efficient electric solutions bear a disproportionately high share of the burden of decarbonisation of the whole economy.

See [Eurelectric's Comments to ETD Inception Impact Assessment]

6. Prevent carbon leakage

Eurelectric recognises the need to address the increasing carbon leakage risk for the ETS-related industries in the context of greater climate ambition. The power sector observes increasing cross-border power trading and imports from third countries with high carbon content, requiring the investigation of a carbon border adjustment mechanism. Electricity-intensive producers covered by the EU ETS as well as others outside its scope could be negatively impacted by increasing costs. An impact assessment needs to analyse the respective effects on the power market and the overall compatibility of the mechanism in relation to its scope and coverage. Europe should put forward complementary policies and tools with the ultimate goal of developing a more global carbon price and market, making it unnecessary to rely on applying potentially perilous unilateral carbon border adjustments in the long term.

See Eurelectric's Carbon Border Adjustment: opportunities to complement efforts under the Green Deal

7. Not leave anyone behind

The energy and climate policies necessary to enable the transition could affect people in different ways across EU countries. In particular, depending on how they are designed, some policies could have a disproportionate negative effect on lower income households. It is important that this policy making phase considers how to minimise the regressive effects of the measures and takes into account their distributional effects across society and European regions. We call on policymakers on one hand to identify and address the potential distributional effects to avoid increasing societal inequality and improve the awareness of citizens on the benefits of decarbonisation. On the other hand, legislation needs to ensure that climate action costs are not disproportionately placed on the electricity bill, by lowering or removing the non-energy costs such as taxes and levies in the electricity price, so as not to hamper electrification, which is itself a key levier for decarbonisation (ref. point 5).

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

Union of the Electricity Industry - Eurelectric aisbl
Boulevard de l'Impératrice, 66 – bte 2 - 1000 Brussels, Belgium
Tel: + 32 2 515 10 00 - VAT: BE 0462 679 112 • www.eurelectric.org
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