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As RECS International we would like to bring forward five <u>key points</u>:

1. A stronger focus must be given to realize a truly **open**, **competitive** and **liberalized energy market**. An internal market for renewables is critical and was seemingly ignored in the 2020 framework. National support systems are more cost-effective at implementing renewables when the system allows for cross border trade. Making sure support systems are cost-efficient and competitive should be of the highest priority for the framework-2030. That being said, there are steps that can be taken immediately to improve competition in the framework-2020. We have included a concrete proposal how this can take place in the enclosed Annex 1.
2. There must finally be a separation of **consumption targets** and **production targets**. Traditionally targets for climate change and security of supply have been production-based targets, based upon the production of CO2 or renewable electricity. These should be delinked and mandatory targets for reductions in the production of CO2 must be continued (EU-ETS). Targets for the further implementation of renewables should be optional and based on the consumption of renewable electricity within a member state. Consumption figures are easily obtained via the reliable and robust Guarantee of Origin tracking system.
3. Inline with an open, liberalized market, the **individual electricity end-consumer** should not be overlooked. The end-consumer of electricity is both small (a household) and large (multi-national corporations and production facilities). These end-users often make dedicated choices for their electricity consumption and their choice for renewables should not be ignored. A functioning and liberalized market would introduce mechanisms where the consumption of electricity by the end-consumer could effect the national renewable targets. This provides a benefit to the implementation of renewables and reduces the cost of new renewables production on the end-consumer.
4. In order to stay inline with the need for competition, **only market-based support solutions** should be considered. As such, the most obvious market-based system, cap-and-trade, should be strengthened and have continuing targets post-2020 to reduce the total production of CO2. Individual national governments can choose to implement national targets for security of

supply/energy efficiency based upon criteria laid out by the European Union. These criteria would provide market-based solutions for the additional, and optional, consumption based renewable/energy efficiency targets.

5. In order to **increase competition** we must **increase the cross-border trade** of energy and electricity. This is not just facilitating the physical transfer of electricity but also acknowledging that electricity attributes are commodities that are traded internationally via standardized electricity tracking systems (the Guarantee of Origin - GO). This GO needs standardized rules for the consumption, cancelation and information delivery to consumers in all member states, including rules regarding electricity disclosure (fuel-mix disclosure) and consumer information (how the consumer is informed about their electricity/energy purchases).

4. Questions

4.1. General

Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

Introduction
Liberalization of the energy markets, with a focus on electricity, is the most important aspect of the current EU energy policy. Liberalization reduces the costs of energy to end-users and gives the choice of energy supplier and energy product to the consumer. We must acknowledge however that liberalization of the energy market is far from complete. Market distortions are becoming obvious and in many cases they are a direct result of national renewable support schemes. RECS International is of the opinion that the electricity market should be increasingly consumer oriented.

Our point of departure: The interaction between the three principles of European energy policy (sustainability, competitiveness and security of supply) was not solved during the 2020-framework. The inability to find a suitable instrument for handling all three of these policy interactions contributed to a lack of success in some areas. Binding national production targets for renewables without the possibility of cross-border trade was a mistake and against the principles of a single European market. It also created an artificially higher price for the implementation of new renewables resulting in a high cost for the energy end-users and/or taxpayers.

Looking forward there must be a stronger focus on the competitiveness pillar of the European energy policy. National targets must be, by default, internationally attainable. We at RECS International believe that any future national renewable subsidy schemes must be more efficient, broader and inline with the European single market and the Treaty of the EU.

Our general proposal: Market-based systems must be the priority with the European Emission Trading System at the center. A successful EU-ETS will result in the increase of renewables as well as increased energy efficiency. The EU-ETS is technology neutral, has a clear price indicator and naturally limits potential market distortions.

The energy end-user (including those meeting targets) must be better protected, informed and have a larger choice in energy products. This means that the certification of energy production (specifically electricity) must be strengthened. This can be done by making a European market for target compliance

based upon reliable energy tracking systems like the European mandated Guarantee of Origin (GO) system.

Compliance and the GO: When all electricity is treated equally (in all aspects of its physical delivery), it is possible to provide the additional value of renewable electricity production via the use of a tracking certificate, the GO. This means that the GO would reflect the additional costs of new renewables production when the GO is bought and consumed. The national governments with renewables targets (mandatory or not) would be forced to have support systems based upon the total consumption of GO certificates and not the physical production of electricity within their borders. The degree to which the international GOs could be used for meeting a national target could be introduced via a step-wise approach. According to the EU single market the consumption of foreign GOs for target counting, or otherwise, can never be forbidden. In this case GOs would be valued at various prices depending upon their production type and originating location. Those national governments with sufficient national production would export their renewable electricity credits, via the GO certificate, for consumption in another EU-member state. Locations with naturally cheap renewable electricity production will benefit from increased investment and the European consumer would benefit from more cost-effective renewables implementation.

Long-term measures: A market-based approach is the only valid option for a long-term European energy strategy, however with a market-based, technology neutral energy strategy there is a risk of ignoring innovation. RECS International acknowledges that there must be a separate innovation plan for new climate neutral and energy efficiency technologies. This can be addressed in a number of different ways, for a potential solution please review Annex 1.

4.2. Targets

Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?

It is important to focus on the three pillars of European energy policy to determine where targets should be set. Each pillar can be met with a specific instrument: Competition by strengthening and increasing the liberalization of energy markets, security of supply via a strong renewables/energy efficiency target and sustainability (climate change) with a functioning EU-ETS market.

If we were to again have security of supply targets (RES targets) in combination with climate change targets (EU-ETS) we are again running into interactions that affect the capabilities of one, or both, targets. For this reason we should focus on one mandatory target for climate change, via the EU-ETS, which both supports energy efficiency and renewables while also supporting the liberalized and well functioning European marketplace.

Security of supply targets, or individual national RES/energy efficiency targets, should be based on the decision of national legislatures and guided by EU legislation. Security of supply targets, to ensure they do not negatively interfere with a functioning carbon market, must be based upon renewable consumption as a percent of total electricity consumption, not the traditional manner which would be based upon the total national production of electricity. In this manner security of supply/energy efficiency targets are consumption based and the EU-ETS is production based.

Any optional, national, European security of supply target must respect the free trade of European goods (electricity included) and be based on reliable European electricity tracking systems. Member states should be given a non-binding allocation for a potential security of supply target in a similar manner to

which there is a binding national carbon cap. To meet this target a functioning renewable electricity market, based on a book-and-claim system, is needed. This book-and-claim system already exists in the form of the guarantee of origin tracking system. The GO tracking system has proven itself over the last 10-years to be a reliable and robust system and the best available tool for the transfer of electricity production/consumption information. The price of the guarantee of origin would provide a clear signal to renewables investors and would change depending upon the location, demand and market. Allowing competition to be a part of the supply targets increase the efficient placement of renewables – for example, solar panels would be placed where physical delivery is easy and the sun is bright. Such a renewables market encourages investment in locations where the price for renewable energy is cheap and efficient.

The security of supply targets, as a percentage of consumption, will provide additional flexibility to national governments. National governments have greater flexibility in influencing energy efficiency and consumption of renewables without distorting the market.

However, It goes without saying that previous investments should be secure and have the ability to remain unchanged. Investors have built renewable production sites and cannot be expected to adjust to changing national support schemes while the production site is already in operation. This new approach would only be considered for new instillations.

Have there been inconsistences in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

The 2020 renewables targets had no mechanism available in which the comparison/combination could be made between emissions reductions (fuel-switches), renewable energy and energy efficiency (in term of costs per ton CO2). This led to high prices for renewables targets when investment could have been more effectively used for energy efficiency targets. A target based on the consumption of renewable electricity against total consumption eliminates this issue.

Energy policies for climate change, renewable electricity production and energy efficiency are interconnected in reality and in the target systems that have been developed. The strengths of each national geographic area should be exploited to its fullest and used wisely. This means that some countries will have larger improvements in one target than another and this should be supported with a collaboration mechanism between targets. Naturally, an EU-ETS based target accomplishes this goal by automatically integrating both energy efficiency increases and the increase in renewable installed capacity.

How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

Technology neutrality should be the priority. Market parties should be able determine the best, most cost-efficient technology. This does not exclude the need for R&D and innovation. It is the opinion of RECS International that R&D programs need to be coordinated in Europe and more focused on demonstration than fundamental research. Additional, near mature, but not market-ready technologies, should be supported in a open, market-based manner – such as is described in Annex 1.

How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

Unlike in the previous framework, governments should report their total energy consumption and the percentage of renewable energy that was consumed. The focus on consumption versus production is critical and is determined via the use of reliable electricity tracking systems like the standardized guarantee of origin system.

This should also be inline with the mandate to disclosure fuel-mixes (reporting of total consumption as well as CO2 emissions and radioactive waste creation). Disclosure systems should mandate consumption/ CO2 production figures be based on consumption as well, this would eliminate the ambiguity that currently exists resulting in each national government displaying these figures in a different manner.

4.3. Instruments

Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?

A well functioning EU-ETS system is the first priority.

How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?

Cost-efficiency is most easily reached by adhering to the principles of the European internal market. In this situation the EU-ETS is already an EU-wide system with clear price signals. If renewable targets are desired they should be built upon the ability to reach targets from outside ones own geographic borders. See annex 1.

How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?

The first priority should be a well functioning energy market including a well functioning European market for renewable electricity. For more information see Annex 1.

Which measures could be envisaged to make further energy savings most cost-effectively?

By improving the EU-ETS it allows policy makers to accurately price energy efficiency savings against carbon prices and decide which would be more cost effective – onsite efficiency increases or carbon credit purchases. If a renewable target is desired it should be based upon reliable tracking systems, like we have described in Annex 1.

How can EU research and innovation policies best support the achievement of the 2030 framework?

For mature and near-mature renewable technologies there should be a technology neutral approach that allows the market and individual investors to decide upon the best renewable technology for their specific project. It should still be the responsibility of the government to support various phases of technology development including, but not limited to, the basic and applied research phases.

4.4. Competitiveness and security of supply

How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?

A pan-European approach naturally creates regulatory certainty because there is not the ability for each individual national government to independently change the legislation. We saw this in the framework-

2020, where national support schemes would stop or be amended without much consultation or lead-time. Additionally, market parties are per definition flexible and will adjust to price signals as they develop, assuming support schemes are market-based. For this reason among others a European-wide market based systems should be the priority.

How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?

Liberalization of electricity and gas markets must be completed, allowing the electricity end-user full insight into their electricity and energy consumption – not just energy prices but also energy attributes, such as the type and originating location of the energy. This information is easily obtained via a reliable and robust energy tracking system like the guarantee of origin.

4.5. Capacity and distributional aspects

What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?

We consider the internal market to be the most effective mechanism to promote cooperation and cost-efficiency.

Are new financing instruments or arrangements required to support the new 2030 framework?

RECS International does not consider financing as a significant obstacle in reaching any future targets. A well designed market for renewable electricity will help investors finance their projects and eventually meet national targets. This internal market for renewable electricity is already fully functioning on a voluntary basis via the robust and reliable guarantee of origin system.

Annex 1: Proposal by RECS International for an internal market for renewable energy

In the following we present how an EU-wide marked-based, consumption targets for security of supply could be constructed while not disturbing current commitments.

1. **Freeze the conditions for all existing plants under a FIT or bonus system.**
   Retroactively changing support schemes is neither beneficial for the investors nor consumer. Investors have chosen to go forward with their project under a given set of parameters and it is unrealistic to change these after the installation has been built.

2. **Create an optional, security of supply consumption-based target in all member states**
   For new renewables investments a tier-1 consumption target for all member states should be created. Each member state will have the option to mandate this target or to leave it as an indicative target.

   Under the tier-1 consumption target all types of renewables would be eligible with possible limitations based on the physical European potential for near mature, cheap, renewable technologies. National tier-1 targets can be derived from the existing national targets for 2020 excluding what has been achieved up till now, even though cross border trade would be possible. The obligation is most effective if it is placed upon the electricity suppliers.

   Our hope is that the "new" national consumption target according to the tier-1 scheme would be fully open to cross border trade but we recognize that some national governments would like to have some guarantees of locally produced, domestic renewable electricity production. Closing the borders completely, as is the situation for most member states today, reduces competition and eventually creates an expense paid for by the end-consumer. The commission should decide upon a minimum percentage of the consumption target that each individual member state is required to allow as coming from international renewable production sites. One example could be that the commission requires that 25% of the consumption target on suppliers could be acquired from international sources. Naturally, if market signals allow for the quota obligation to be met from cheap domestic consumption that is fine as well, but a supplier should not be required to only consume domestic production and be free to explore international options for a portion (in this case 25%) of their tier-1 consumption target. Member states will have the possibility to decide on a higher degree of internationalization allowing a bigger share of imports than 25% if that is their desire.

   The consequence will be more competition among renewables in Europe and on-shore wind would likely set the marginal price. This will lead to a higher degree of cost efficiency but not trigger new technologies in need of more development. Therefore a tier-2 consumption target for less mature technologies would be needed.

3. **Create a tier-2 consumption target in all Member States**
   A tier-2 consumption target will have a very similar design as seen in the tier-1 consumption target with the exception that not all renewable technologies will be eligible. On-shore wind and cheaper technologies would be excluded from the consumption target only allowing investments in less mature and consequently more expensive technologies, e.g. PV or off-shore wind. The consumption target for tier-2 should represent a volume above the tier-1 volume target created by the EU.

This means that suppliers in Europe will have two consumption targets, for tier-1 and for tier-2. Tier-2, as usually originating from more expensive sources, can be used for the tier-1 consumption target whereas tier-1 consumption target could never meet tier-2 requirements.