

Consultation on Guidelines on certain state aid measures in the context of the system for greenhouse gas emission allowance trading post 2021

Energy Norway represents the electricity industry in Norway, i.e. companies producing, transporting or trading in electricity. Our members produce 130-140 TWh annually, which is some 99 per cent of all power production in Norway. Our members have approximately 2.5 million grid customers, which is about 90 per cent of Norway's grid customers.

Norwegian power production is almost 100% renewable and emission free. 95 per cent of the power production stems from the 1600 hydropower plants which are spread all across the country, and some 3,5 per cent stems from windpower.

Nevertheless, power prices in Norway are heavily influenced by CO₂prices. Norway has been fully integrated in the ETS since 2008. Norway is an integral part of the Nordic power market and system, with connections to the Netherlands, and soon also to Germany and the UK. The generation costs for the thermal power are directly affected by CO₂-costs. Since thermal generation for most periods remain the marginal price setter, these costs will indirectly be passed through onto the electricity price in Norway.

Carbon leakage needs continued focus. Industrial customers are key for the electricity sector and European value creation and their competitiveness has to be secured through carbon leakage measures as long and strong as needed. As long as the EU's main international trading partners do not make equivalent efforts to price CO₂ in order to reduce GHG-emissions, carbon leakage remains an important issue. Therefore, the EU should not impose additional requirements that would further disadvantage having electro-intensive industry production with the world class carbon footprint in Europe. Compensation to sectors documented to be at risk of carbon leakage is necessary in order to preserve the competitive position of Europe as location for these energy-intensive industries.

Energy Norway would like to highlight two parts of the guidelines that need to be changed in order for the compensation system to be effective. These are regarding the **power market regions** and the **CO₂-emission pass through** factor.

Proposed geographic areas will not reflect reality (cf. 1.3 Definitions, 14 (10)) The draft State Aid Guidelines propose a fragmentation of the current Guidelines' power market regions. The justification is an assessment in a report accompanying the draft Guidelines that price convergence in the Central and Western Europe (CWE) and Nordic zones has decreased. Energy Norway do not agree with this line of reasoning, which we find do not reflect our power market realities, where the emission pass through effect is indirect, not directly correlated day to day, but still strong, as shown by our power market models.

The Commissions recommended pass-through factor methodology based on fossil power generation emissions over fossil-based power generation may well be appropriate for power markets dominated by coal- or gas-fired plants. For countries where fossil-free power generation makes up a very large, e.g. the Nordics and France, it is inaccurate.

The best way to identify which pass-through factor to use in the Nordics is to apply power market models that accurately simulate the complicated hydro-nuclear-thermal interplay that is the connectivity between the Nordics and the Continent. Such power market models exist and are frequently used in numerous power market studies both in the Nordics and by the EU Commission,

These models are also used by the power industry in our strategic analysis. The different power market models have been proven in back testing being able to predict historical price levels and variation due to, among other factors the CO2 pass-through factor. Although with slight variations (see i.e studies commissioned by the Norwegian Confederation of Industry and the Norwegian Ministry for Oil and Energy), these models confirm a significant carbon pass-through factor in Norwegian electricity prices. A fact that should be reflected in EU Guidelines on state aid to compensate industry exposed to carbon leakage.