

Increased electrification is key when getting fit for 55

Climate change poses a fundamental threat to our planet. The power sector is therefore committed to leading the way, decarbonising the European Union. Nordic electricity supply is already well under way towards climate neutrality before 2050, however a facilitating policy framework to fully unlock its potential is necessary. With this position paper, Nordenergi¹ aims to present our overall position on the Fit for 55 package and a few extracts on important issues for the upcoming legislative package. More specifically, Nordenergi will present in more detail our views on increased ambition in the EU ETS, encouraging use of sustainable biomass and hydrogen in the RED III.

According to Nordenergi's electrification [study](#)², demand for electricity will increase with 60 percent from 2020 to 2040, primarily due to decarbonisation of other sectors. The Nordic power sector is ready for this challenge, delivering fossil-free and affordable electricity. The power sector needs, legislation in the Fit for 55 package that encourages investment in fossil-free electricity by following the suggestions below.

In summary, our fit for 55-message is that:

- **Nordenergi supports the EU's net-zero carbon emissions goal by 2050 and an increased ambition towards at least a 55 percent target in GHG reductions by 2030.**
- **Nordic ambitious climate policy relies on all carbon-neutral energy sources.** Therefore, the EU must support all carbon-neutral power production as well as a well-functioning, fully integrated power market in the implementation of the energy system integration strategy.
- **EU ETS should lead the decarbonisation path forward** by raising the linear reduction factor, ensuring a strong market stability reserve and including more sectors into the system.
- **The sustainable use of biomass should be encouraged in the RED III** by promoting the use of waste products, adjusting it to national conditions and by first implementing the RED II.
- **The RED III should also efficiently promote the introduction of hydrogen with a market-oriented approach** by not being too restrictive on when applying the 'Additionality' principle and to more broadly allow for non-fossil based, low carbon production.

EU ETS as the primary tool for decarbonisation

The EU ETS should be the main driver for the decarbonisation and consequently the EU ETS has to be strengthened.

- The current Linear Reduction Factor (LRF) must be aligned with the new 2030 target and must be brought into force as soon as possible. The Commission should continue to strengthen the EU ETS to deliver a meaningful carbon price that drives electricity and industry decarbonisation. The EU ETS creates a market signal for industrial electrification. Electrification is the industry's main means of reducing emissions. Adjusted LRF will create a market signal for industry and new electricity generation investments.

¹Nordenergi is the joint-collaboration between the Nordic associations for electricity producers, suppliers and distributors. Members are Danish Energy, Energy Norway, Finnish Energy and Swedenergy. Overall, Nordenergi represents more than 800 market actors (member companies), most of them active in the electricity sector, but also in other areas such as district heating, gas and services.

²Bartnes, 2021

- A strong market stability reserve (MSR) is needed to make the ETS resilient for policy overlaps and unforeseen external events. Negative impact of overlapping policies should be minimised. Nordenergi calls for the Commission to assess the impact of overlapping policies on the functioning of the ETS. The Commission should monitor how other legislation proposals in the field of energy affects the demand of emission allowances.
- Emissions trading should be extended to other sectors. The planned changes should be introduced transparently, in order not to jeopardise the visibility needed for investment in electricity generation, district heating and industrial decarbonisation.

A RED III which supports circularity and renewable energy

Nordenergi supports and highlights the use of forest industry by-products and wood residues for energy production as the usage of sustainable woody biomass can and should make a meaningful contribution to climate change mitigation.

- We see the current sustainability criteria for biomass is well taking into consideration national requirements for ensuring the sustainability of forest biomass. This country or regional risk-based approach is highly appropriate.
- The current sustainability and greenhouse gas saving criteria should be first implemented to gain experience and further insights into biomass markets. Constant change in the criteria might have a negative effect on the market and development. In a few years, we will have more vital information on the need for review and changes for the post 2030 time.

A Renewable energy directive which supports the development of hydrogen

- Finally, Nordenergi supports progressive European policies which facilitate hydrogen-buildout. This is especially important since hydrogen production is a new and upcoming technology which still needs a mature supply-chain with adequate supply and demand to support it. From a policy-side, it is important that rules for hydrogen production are not too restrictive, and that the 'Additionality' principle from the RED II is not applied too strictly. We recommend that 'Additionality' is defined in the upcoming RED III. It would be premature to make strict requirements based on the RED II already, considering the fast development the field has experienced since 2018.
- Crucially, we oppose the detailed requirements set out in the Commissions Delegated Act for Renewable Fuels of Non-Biological Origin (RFNBOs), as these risk restricting suboptimal energy system operation, administrative burdens, and increased consumer costs. Especially:
 - o We oppose the idea that RFNBOs must be powered by new energy production sites, as production of RFNBO may give room for additional power production from existing power plants.
 - o The requirements for geographical and temporal correlation between electricity- and hydrogen production would severely hamper competition in the hydrogen market and create unnecessary costs to the projects.
- The Commission should confirm that countries with a high degree of renewable energy already in the national grids, are exempt from such detailed measures.