

Clean Energy Package

European Aluminium position and recommendations

April 2017

Introductory remarks and guidelines

European Aluminium, representing more than 600 aluminium plants (upstream and downstream) of the entire aluminium value chain, welcomes the principles and political aspirations embedded into the legislative proposals “Clean energy for all Europeans”, adopted last year.

We fully understand the importance to define legislative frameworks to empower energy consumers, integrate electricity markets and manage the penetration of Renewable Energy Sources (RES) into the European grids. Our industry is proactively contributing to such goals through our product applications, infinite recyclability and the stabilisation of the grid through demand-response mechanisms.

In this context, and following the global climate agreement in Paris (COP-21), our industry supports ambitious policies based on the following guidelines:

- 1. The decarbonization of electricity markets is a fundamental step to achieve the decarbonization of the entire EU economy and reach our 2030 and 2050 GHG targets.** Such process should always be planned, developed and implemented by **keeping fair and international competitive energy market conditions** for our citizens, industries and all types of energy consumers.
- 2. Multiple legislative reforms should be consistent with the existing and future EU energy and climate legislation.** Silo-driven proposals could harm the interest of energy consumers and undermine the effectiveness of policy instruments. An important example to recall is how non-ETS legislation (ie. energy efficiency directive/targets) will apply to ETS-eligible sectors.
- 3. Promotion of renewables should continue through cost-effective market mechanisms, when necessary; such need should be conditioned by, but not limited to, the lack of grid parity established through impact assessments. Granting support to mature RES technologies should be avoided.** Creating a level playing field among

all energy sources is necessary and RES generators should participate into the markets the same way as any other energy source.

4. **Global competitiveness of the European industry should be embedded in the new package:** the cumulated impact of the different legislative measures should be assessed taking into account the global competitiveness of the European industries and their value chains. Legal consistency should be accompanied by appropriate cost reductions and adequate conditions in state aid regulations.
5. **Stability and predictability of the legislative framework** should be a core principle to guide the governance of the Energy Union.
6. **A robust level playing field to remove serious internal market distortions** resulting from national policies, including financial support to RES, should be enacted.

More specifically, our association has developed several recommendations to improve the core reforms proposed by the European Commission:

1. Electricity Market Design:

- a. Promote a voluntary and incentive-driven demand-response regime by defining proper criterion and by removing existing barriers.
- b. Capacity mechanism should be a last resource tool and, when needed, it should be adequately developed to solve specific, temporary problems. The costs of these mechanisms and the subsequent impact on consumers' electricity bill should also be taken into consideration. Strategic reserve in the form of *interruptibility* scheme may be an appropriate solution to fix a temporary adequacy risk, while developing a flexible demand at the same time.
- c. Long term power contracts should also play a more prominent role in the future system. These contracts can benefit particular industrial consumers to hedge their energy contracting and investors to secure their asset decision. The proposal does not address this particular element, focusing only on transmissions rights, and should better address a smart use of this contracting

possibility for energy intensive consumers dealing with strategic value chains in Europe.

- d. Clarify the consequences of the requirement to establish the Regional Operational Centres (ROCs). The rules for these centres will be essential for both power transmission between countries and security of supply for each Member State.
- e. Restrictions on the use of congestion revenues, so that these can only be used for investments in grid connections, and no longer to reduce grid tariffs, should be avoided. There is no reason to discourage the use of congestion income for both purposes.
- f. Allow and support a national grid tariff structure that takes into account the industry's contribution to stabilize the grid system.
- g. Prevent priority dispatch from any mature energy source, including existing RES.

2. Energy Efficiency:

- a. Introduce measures targeting non-ETS sectors with major potential to improve energy efficiency such as buildings and transport.
- b. ETS-sectors should be exempted from savings requirements as this will create a double regulation situation which will impact potential growth and accelerate carbon leakage.
- c. Member States should have flexibility to define their contribution to energy efficiency targets based on their economic structure and sectoral potentials.

3. Renewable Directive:

- a. Secure a predictable regime where RES support mechanism is market-based, cost-efficient and necessary. Support should not be granted to mature RES technologies that have already reached grid parity. Cost efficiency should also take grid capacity into account.
- b. Increasing the share of renewables can possibly alter the energy system and, furthermore, require public financing. Preserving industry's global

- competitiveness should be an integrated part of assessing financial support for energy production.
- c. Discourage the continuation of the guarantee of origin system since it represents a misleading information tool for both households and industrial consumers.
 - d. Promote solutions for intermittency and security of supply related challenges.

Last but not least, a sufficient, adequate and stable framework from 2020 must be developed by the European Commission in the form of **State Aid guidelines** based on objective and transparent criteria to protect the competitiveness of the European industry that is most exposed to Energy and Climate regulatory developments.

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