ELECTRIFICATION ALLIANCE

‘Fit for 55’ package: recommendations for co-legislators

The Electrification Alliance welcomes the proposals put forward by the European Commission in the ‘Fit for 55’ package. The Commission sends a positive signal towards the decarbonisation of the energy system, with clear climate and energy targets for 2030 aligned with the climate neutrality objective. This package represents Europe’s moment to deliver the radical transformation needed in the way we produce, consume and distribute energy, in order to achieve the EU 2030 climate and energy targets, putting Europe on track towards climate neutrality by 2050.

We must ensure that these targets are achieved in the most cost-effective way possible. This requires clean and renewable electrification supported by a policy framework geared towards carbon and system efficiency. This will support the penetration of more variable renewable electricity in all end-use sectors in the best way, promote their smart system integration, modernise our economy and bring tangible benefits to all EU citizens and the environment.

With the present Position paper, the Electrification Alliance outlines priorities for improvement of the ‘Fit for 55’ package during the co-decision process and is addressed to the European Parliament and Member States. These priorities are no-regret: the cost of inaction would increase the cost of decarbonisation.

1. Energy Taxation and Carbon Pricing

The new energy taxation system proposed by the Commission, applicable from 2023, sets as a general principle the removal of tax exemptions for fossil fuel consumption and considers electricity among the least taxed energy sources when used in motors and heat. This represents a much needed and significant step to foster electrification in the transport and heating sectors. It is key to ensure that prices reflect the environmental impact of the different energy sources and carriers.

We therefore urge the co-legislators to support and build on this approach to boost electrification and to improve the **Energy Taxation Directive** by*:*

- Ensuring that the revised allocation of minimum tax rates on the different energy carriers foster decarbonisation, notably by supporting consumers, especially vulnerable ones, to switch to cleaner solutions in heating and transportation.
- Making full use of the possibility for a tax exemption for renewable-based electricity consumption and avoid taxes and levies schemes that distort the economic efficiency of market mechanisms or the ETS purpose. This will incentivise corporate renewable energy sourcing, prosumer business models and allow consumers to invest in additional renewable energy capacity while reducing the need for public investments.
- Making explicit the prohibition of double taxation of electricity storage, including from electric vehicles. This should be accompanied by a clear reference to the support to prosumer business models and active customers owning an energy storage facility.

The new separate **ETS for buildings and road transport** may provide further incentives to decarbonise the energy consumption of these sectors, encouraging their clean electrification. However, it needs to be carefully considered, and should not come at the expense of ambitious regulatory measures that have the potential to encourage meaningful changes, in particular the Energy Performance of Buildings Directive and stricter CO2 emissions standards for vehicles.

Furthermore, the new ETS for buildings and transport should not disproportionately affect low-income households. It should therefore be accompanied by effective social measures to compensate for the social impact of such a measure. An **ambitious Social Climate Fund** is needed to support low-income households and minimise the social and distributional effects of climate policies, while ensuring that no one is left behind. The revenues used through this Fund should be channelled on future-proof investments supporting, for instance, electrified, smart and flexible buildings and electric vehicles, integrated in a decarbonised energy system.

The revision of the current EU ETS, together with the broader 'Fit for 55' package, should also ensure that sufficient support is provided to the electrification of production processes by energy intensive industries, given that these industries will be under increased pressure from the simultaneous reduction of free allocation and expected increase in the price of allowances.

2. Renewable energy

The package is setting policy measures to increase efforts in renewable energy, including sub-targets in end-use sectors (buildings, heating and cooling, transport and industries). Key provisions are put forward to support a flexible and renewable-based electrification, notably in road transport. However, more can be done in order to drive the clean and renewable-based electrification of buildings, industry and heating & cooling, as well as their integration with the electricity system.

A critical precondition for a successful 'Fit for 55' package delivering on the renewable energy target is to accelerate and simplify permitting processes for new and repowered

renewable energy projects, including grid infrastructure, when necessary and cost-effective while protecting and restoring nature. The European Commission should already develop guidance to Member States on accelerating permitting by early 2022 to support the EU-27 in fulfilling the permitting deadlines in Article 16 of the Renewable Energy Directive (RED).

We urge the co-legislators to strengthen the **Renewable Energy Directive** and to*:*

- Support an ambitious overall EU target for renewables with consistent sub-targets to drive the direct electrification of all end-user sectors. The proposed level of the overall RES ambition should not be decreased during the negotiation.
- Ensure the achievement of these targets by further promoting flexible and renewable-based electrification and smart system integration of all end-use sectors: transport, buildings, industry and heating & cooling. For buildings, it should be complemented by the revision of the Energy Performance of Buildings Directive.
- Facilitate the flexible consumption and storage of renewable electricity both produced onsite and from the grid for these sectors. By activating their demand-side flexibility potential, electrified end-use sectors will support a more variable energy system and help the penetration of renewables, thus increasing system efficiency.
- Support the provisions which 1) remove regulatory and administrative barriers to promote the uptake of power purchase agreements (PPAs) and 2) allow Member States to issue Guarantees of Origin (GOs) to renewable producers as this favours the uptake of renewables. The GOs framework chould be adapted and strengthened to offer on an optional basis the possibility to increase information to electricity consumers and incentivise flexible demand in order to further support the cost-effective penetration of renewables in all end-use sectors.
- Support the improved coordination between TSO-DSO and district heating & cooling operators and make sure, including through reward schemes, that non-wire alternatives are duly taken into account in planning, investment and infrastructure development decisions - in line with the Energy Efficiency First principle - as this will unlock the flexibility potential of district heating and cooling and ensure its participation in the electricity market.
- Ensure that the human capital with the skills necessary to affect the low carbon economy is available across Europe. Member States should ensure that there are enough professionals in the whole clean and renewable energy value chain, beyond the installers of renewable heating and cooling technologies. Support for upskilling and reskilling should also focus on SMEs and very small enterprises.

3. Energy system efficiency

With electrification comes major opportunities to advance energy efficiency of end-users and across the energy system. The current proposal should further recognise and capture the efficiency advantages of electrification.

We therefore urge the co-legislators to embrace a system efficiency perspective in the **Energy Efficiency Directive** to:

- Support an increase of the EU targets for energy efficiency, and the 3% renovation target for buildings in the public sector. The upcoming revision of the Energy Performance of Buildings Directive should reflect the level of ambition of the revised EED with regards to the renovation rate.
- Apply the Energy Efficiency First principle at system level by: 1) using clean electricity as the most efficient energy carrier and reducing energy conversions, 2) taking into account the dynamic and time-dependent savings achieved through a flexible demand of electrified end-use sectors, 3) strengthening requirements for system operators to value non-wire alternatives such as the procurement of flexibility services that can increase system efficiency and avoid stranded assets and 4) ensuring that this principle apply to all planning, policy and investment decisions, regardless of their size, provided that it does not create burdensome investment procedures.
- Improve the provisions on the Energy Savings Obligations Schemes by 1) complementing their scope with additional measures to contemplate energy efficiency achieved at system level through renewable-based electrification and the activation of demand-side flexibility, 2) removing the two sunset clauses (art. 8.8(c) and art. 8.8(f)) which respectively disincentivise efficiency improvement in electricity networks and the uptake of renewable installations in buildings, undermining opportunities to achieve system efficiency.
- Allow for the review the Primary Energy Factor for electricity on a more regular and forward-looking basis to reflect the accelerated uptake of renewable-based electricity and include greenhouse gas intensity of energy carriers in the methodology.

4. Electrification of road transport

The ‘Fit for 55’ package constitutes a step in the right direction, providing clarity on the CO2 emission reduction trajectory of cars and vans while supporting smart charging functionalities. The reconfiguration of the Alternative Fuels Infrastructure Directive as a Regulation is positive and will ensure swift implementation, supporting an interoperable network for private and professional users in line with electric vehicle (EV) market growth. It is key to improve these provisions to ensure that they are adapted to match the future accelerated deployment of electric vehicles and their integration in the energy system as flexible assets, contributing to renewable penetration and system efficiency.

We therefore urge the co-legislators to strengthen the revisions of the **CO2 emission performance standards for cars and vans Regulation**, the **Alternative Fuels Infrastructure Regulation** (AFIR) and the **Renewable Energy Directive** to:

- Support in AFIR the approach of a fleet-based target to ensure that charging infrastructure roll-out is dynamic and reflects the uptake of EV in Europe, whilst raising the ambition of the target levels to ensure a dense network across the continent.
- Support the proposed minimum requirements for the deployment of charging

pools across the TEN-T network by 2025.

- Welcome the obligation that by 2035 new passenger cars and vans deliver a 100% reduction in CO2 emissions, but support this level of ambition by setting annual or interim targets in order to ensure both a steady uptake of EVs through the 2020s, and that the 2035 target can actually be achieved.
- Transform the Zero and Low Emission Vehicles incentive mechanism into a pure Zero Emission Vehicles incentive mechanism, whilst progressively increasing the size of the sales benchmark to reflect the ongoing and needed rapid uptake of electromobility.
- Prioritise the deployment of smart charging-capable publicly accessible normal power charging points in places where vehicles typically park for extended periods of time, such as on-street overnight parking, residential areas without sufficient off-street parking and medium and large commercial buildings as this can facilitate EV integration by enabling demand response (AFIR). Retrofitting requirements for existing infrastructure should be avoided.
- Maintain the obligation under RED for non–publicly accessible normal power recharging points to support smart charging functionalities which complement the AFIR's focus on publicly accessible chargers, while avoiding retrofitting requirements, and allow for the support to bidirectional functionalities when contributing to system efficiency.
- Ensure that under RED, Member States introduce a well-designed fuel-neutral credit trading mechanism, and extend the scope to both private and public charging to guarantee a level playing field for all charging solutions.
- In line with the Energy Efficiency First principle, ensure that the "well-to-wheel" energy efficiency of the different zero emission technologies is considered in the design of the policy framework for e-mobility.

The signatories:

For more information about the Electrification Alliance: http://electrification- alliance.eu/