Principles and recommendations for energy transition

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The Círculo de Empresarios’ principles and recommendations for energy transition

Contemporary society is undergoing extraordinary transformation with major consequences for the energy sector - a key industry with respect to socio-economic progress. Global GDP is forecast to double by 2050 and the world’s population will reach 9.8 billion. Given this context, it is essential to tackle climate change and environmental protection, promoting the efficient and sustainable use of available resources. This requires a stable, transparent regulatory framework that enables balanced, competitive energy transition.

Energy transition refers to the process of decarbonizing the economy, seeking to minimize the impact and reduce the consumption of fossil fuels through progressive replacement with energy from renewable sources and sources producing lower greenhouse gas (GHG) emissions, as well as by improving energy efficiency. It is also essential to foster the development of new technologies such as emission capture and use, besides encouraging evolution towards a more sustainable production structure.

This relentless, worldwide commitment to future generations additionally represents an opportunity to drive the growth and well-being of countries at the forefront in transforming their energy systems. Spain must be a key player in this industrial and technological revolution, not only in order to drive economic progress, but also to develop technology solutions that compete on a world scale. In order to achieve this, it is necessary to put in place structural policies that maximize the economic impact of the process and that, in addition to modifying the generation and consumption of energy, contribute to the transformation of our productive structure and society as a whole. Energy transition therefore constitutes a catalyst towards a new, more sustainable economic model in which new opportunities for business, investment, innovation, internationalization and job creation will flourish.

As a civil society organization pursuing the common interests of Spain, in the Círculo de Empresarios we believe that designing a balanced, competitive energy transition requires an agreed national strategy with a long-term outlook. With this in mind, it is important that the forthcoming Climate Change and Energy Transition Act (Ley de Cambio Climático y Transición Energética) is devised under principles of good governance and institutional collaboration, with regulatory stability and certainty, transparency and competitiveness, fiscal efficiency and the fostering of technological innovation. In other words, it must lay the foundations for a stable regulatory framework, with a roadmap that confers certainty to all economic stakeholders and that is backed by the political, institutional, business and social realms of our country.
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1. Principles for energy transition

As stated in the study “Towards competitive, sustainable, guaranteed energy” (2015), the Círculo de Empresarios considers that the courses of action must fit within a regulatory framework that favors:

1. **Governance and institutional collaboration.** The energy transition process, particularly within the framework of EU member countries, is in need of a new energy governance system. It is essential for Spain to engage all stakeholders in the design of this new system (public administration, businesses, experts, civil society and citizens), setting up efficient and transparent mechanisms for cooperation.

2. **Regulatory stability and certainty.** To enable decision-making, consumers, businesses and investors need regulatory and legal stability based on procedural transparency and legal certainty. In order to achieve this, a long-term institutional framework for the design of energy and climate change policy is necessary.

3. **Transparency and competitiveness.** Transparency is a fundamental prerequisite in the design, existence and efficient working of the market. In order to achieve a free market, economic development and social progress, transparency must extend to legal, regulatory financial and business matters so as to strengthen legal certainty and trust in public and private sector involvement. Moreover, it is necessary to ensure the competitive development of Spain’s industrial and technological fabric, achieved through a proper cost-benefit analysis of the measures adopted in the energy transition process.

4. **Taxation.** The market needs transparent, efficient incentives rather than taxes that curb competitiveness or impose burdens on economic sectors. The imposition of levies or surcharges on prices and/or tariffs for reasons arising from economic and social policy actions should be avoided, the funding of these being carried out through the budgets of Public Administrations. Energy has an extensive value chain and plays a part in the production of a wide range of products and services. Freedom to enter and exit the sector, to access infrastructure and the existence of free competition, movement and trade operations must be guaranteed in order to benefit consumers and ensure the quality of operators and transactions.

5. **Fostering of technological innovation.** Energy transition offers opportunities in terms of industrial development, new services and products of high technological density, particularly in the digital environment. Spain must priorities this opportunity, both within the framework of public R&D policies and in the development of a dynamic, efficient and sustainable energy environment, primarily in terms of small and medium enterprises.
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2. Recommendations

On the basis of these principles, the Círculo de Empresarios considers that, in order to tackle the energy transition process and the decarbonization of the Spanish economy, it is necessary to implement the following measures and reforms:

• Develop a clear, long-term framework for the decarbonization of the Spanish economy, through the Climate Change and Energy Transition Act (Ley de Cambio Climático y Transición Energética) and the National Integrated Energy and Climate Plan (Plan Nacional Integrado de Energía y Clima), agreed between political parties and open to participation from stakeholders and society in general. This agreement must have a strategic, long-term outlook, avoiding past errors in its design and energy policy decision-making processes. This framework must define the guiding principles for intervention on the part of Public Administrations and the various sectors of the economy, establishing a structure of national and sectoral targets for 2030 and 2050. It must also include market and regulatory mechanisms to drive the necessary changes, as well as economic analyses that quantify necessary funding resources.

• The future regulatory framework should combine stability and long-term vision, with key elements such as flexibility and adaptive capacity throughout the transition process. In order to achieve this, it is necessary to evaluate the effectiveness of measures implemented, along with their economic impact on the various sectors affected and the evolution of technology.

• Define a governance model dependent on Central Government that responds rigorously to the information and supervisory needs of the EU, whilst guaranteeing the development and achievement of all goals on the basis of a solid institutional structure with strategic vision. In order to achieve this, it is necessary to:
  o Assign competencies at senior levels within Administrations (due to the significance of the process and crossovers between sectors).
  o Ensure coordination between Ministries, Autonomous Regions and Local Authorities, guaranteeing uniformity of action and regulatory development throughout all levels of public administration.
  o Establish institutional design with mechanisms that guarantee the adoption of decision-making according to technical and economic criteria, irrespective of the political cycle. Avoid penalizing sectors that are using the best available technology in terms of energy efficiency and emissions where no possible alternative exists.
• **Design an energy and environmental tax system** that, rather than having goals associated merely with collection, drives **competitiveness, sustainability, innovation, investment and employment** within the Spanish economy. To this effect, the following principles must be followed:

  o Boost **energy efficiency** and **emissions reduction**, whilst respecting technological neutrality.

  o Foster a **competitive and impartial transition**, that does not penalize investment, innovation, the capture of overseas capital and the growth of the Spanish economy, particularly in the case of citizens and sectors that are most exposed to this process.

  o **Harmonize and simplify** the structure of the currently numerous and highly ineffective **regional and local energy and/or environmental taxes**, whilst ensuring the fiscal and tax balances of public administrations as a whole and **avoiding a design** that is merely aimed at collections.

  o **Align** the Spanish tax system with **European policies and directives**. This would enable affected sectors to access effective exemptions and offsetting in other EU countries. This would in turn improve their competitiveness, as in the case of electro-intensive industries.

• **Take advantage of energy transition to boost competitiveness and attract investment, whilst sustainably generating employment and gross value added.** The decarbonization process requires major investment in most sectors of activity and the fundamental transformation of others. It likewise entails the development of new products, equipment and services with a high degree of technological intensity. To that end, it is essential to establish ambitious, sector-based strategies aligned with energy transition that enable the opportunities and development needs of sectors within the Spanish economy to be grasped.

• **Foster innovation, R&D investment and business entrepreneurship** in key sectors and areas such as energy efficiency, renewable energy, vehicle manufacturing, mobility, networks and smart homes and cities, as well as in new technologies such as hydrogen fuel cells, electricity storage and carbon capture, storage and use, among others. The foregoing must be undertaken under the general principle of **technological neutrality** and with a clear aim of **boosting competitiveness and the technological development** of the Spanish economy. To this end, it is necessary to:

  o Have **stable budgetary allocations** for public administrations in terms of R&D.

  o Foster **public-private partnerships**, industrial collaboration and cross-sectoral initiatives.

  o Create **sector-based hubs** related to energy transition, incorporating all necessary stakeholders including research and academia.
• Within the electricity system, it is necessary to:
  
  o Promote an electricity generation mix that, with proper diversification of energy sources, guarantees security of supply, competitiveness and price predictability. Progress must continue to be made in the gradual displacement of carbon in electricity generation through the use of renewable energies, nuclear energy, natural gas and renewable gas to reduce the generation of greenhouse gases. Nuclear technology and hydro will remain important during the transition to provide baseload and strengthen the electrical system without increasing emissions. In the case of nuclear energy, it is necessary to extend the lifespan of existing power stations where there are no technically feasible, cost-competitive and emission-free alternatives. This extension must be subject to the approval and conditions imposed by the Nuclear Safety Council.

  o Reform the wholesale electricity markets so as to introduce efficient markers that foster investment in renewable energy and recompense backup generation and demand management mechanisms.

  o Establish a consumer pricing system that brings together solely generation, transmission and distribution costs, eliminating from consumers’ bills any additional items that represent an increase and directly impact economic competition. In addition, any public subsidy or grant established on the basis of need must be financed through national government budgets.

  o Once a balance between the revenue and costs of the electricity system has been reached, it will be important to definitively eliminate the taxes and charges (generation tax, etc.) introduced in the most recent reform of the electricity system (Act 24/2013, dated December 26, on the Electricity Sector), that led to a substantial increase in consumer prices.

  o Reform the electricity tariff taxation and charging structure to align this with the structure set out in European Directives, enabling, among other benefits, electro-intensive industries in Spain to benefit from the same exemptions and offsetting as their European competitors, minimizing price differentials and a loss of competitiveness.

  o Further the development of electricity and gas interconnection projects aimed at a European single market for energy. These must be subject to cost-benefit analysis, improve security of supply and raise the potential of alternative energy sources.

  o Lower the barriers preventing more active participation by consumers in the markets or through bringing together demand and supply.
• Design energy efficiency measures in line with the principles of cost-benefit analysis to enable investment in different areas:
  
  o Public, private and commercial buildings, in line with the European regulations on energy efficiency (lighting, HVAC, insulation).
  
  o Energy intensive industrial processes, through the updating of engines and motors, boilers and CHP, among others.
  
  o Mobility and transport through the updating of road vehicles and rolling stock, incorporating new engine technology, a drive towards public passenger transport and the transport of goods by rail.

In order to achieve this, it is necessary to set out standardized measurement criteria that enable determination of the cost efficiency for citizens of each initiative.

• Encourage the consideration of environmental aspects as criteria in public sector tendering.

• Speed up the development of the recharging infrastructure for vehicles using alternative energy or fuels.

• Promote projects involving carbon capture and sequestration, developing the creation of vegetation sinks using not only protected natural areas, but also with actions involving afforestation, reforestation and revegetation, among others.

• Raise awareness and improve education regarding habits and lifestyles that contribute to successful energy transition, strengthening the key role of consumers.
As a civil society organization pursuing the common interests of Spain, the Círculo de Empresarios wishes to contribute to the debate on how we tackle the energy transition and descarbonization process, not only in order to meet the commitments acquired in the Paris Agreement as an EU member state, but also in order to ensure a competitive and sufficient energy supply that is sustainable from an environmental point of view, whilst generating new business, investment, innovation and employment opportunities. The goal of our analysis and proposals is to contribute to the modernization, competitiveness and sustainability of our economy, to social progress and well-being, and to the improvement of the quality and stability of our institutional framework.

Achieving a balanced and competitive energy transition requires an agreed national strategy with a long-term outlook and which is technologically neutral. With this in mind, it is important that the forthcoming Climate Change and Energy Transition Act (Ley de Cambio Climático y Transición Energética) guarantees the principles of good governance and institutional collaboration, with regulatory stability and certainty, transparency and competitiveness, fiscal efficiency and the fostering of technological innovation. In other words, given the significance and the social, technological and economic magnitude of this process, cooperation on the part of all stakeholders involved (political, institutional, business, investor and social) is key to establishing a stable regulatory framework and a roadmap that confers certainty and predictability, essential components in strengthening competitiveness, innovation and sustainable growth for the Spanish economy.
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