

## Response to the public consultation on the reform of the EU's electricity market design

**The Norwegian Confederation of Trade Unions (LO Norway) is Norway's largest trade union organisation. The 25 national unions affiliated to LO Norway have over 970 000 members, representing a broad range of sectors and occupations.**

LO Norway supports the intention of ensuring a resilient market for an electricity system with a high share of renewables, while at the same time preserving and enhancing incentives for the investments needed to ensure sustainable, secure, and affordable electricity for the future.

Norway is an important supplier of energy to the EU. This relationship is defined and regulated by Norway's participation in the internal energy market through the EEA agreement. Since the 1970s, Norway has entered into agreements for electricity exchange through interconnection with European countries. This means that the electricity price crisis affects both Norwegian and EU customers. Although the Norwegian electricity system is based on renewables with low production costs, exposure to European prices has resulted in high consumer bills. Since the winter of 2021/2022, the Norwegian government has introduced a wide range of measures to mitigate the high costs of electricity for consumers.<sup>1</sup> In times of crisis, questions of redistribution are critical. They are best solved on the national level through dialogue and negotiations between social partners, with solidarity and protection for the most vulnerable.

As part of the war in Ukraine, Russia has weaponized energy and cut its gas exports to the EU by ca. 80%. This loss of available energy is the single most important driver of high prices. In this situation, the most important contribution Norway can make is to maximise its deliveries of natural gas to Europe. Norwegian gas production increased by ca. 8% in 2022, and Norway has now become the EU's leading supplier of natural gas accounting for ca. 30% of consumption.<sup>2</sup> In the June 2022 Joint EU-Norway Statement on energy cooperation, the European Commission supported Norway's continued exploration and production of oil and gas beyond 2030,<sup>3</sup> and the Norwegian government has recently proposed to open 92 new blocks for oil and gas exploration in the Norwegian Sea and the Barents Sea. New production will contribute to securing European supplies in the long term.

Norway is largely energy self-sufficient with a surplus of renewable electricity. In 2020, Norway overachieved its national target of 67.5% renewable energy in gross final energy consumption.

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<sup>1</sup> See [overview of the Norwegian government's electricity support measures](#) introduced since 2021/2022.

<sup>2</sup> Bruegel (2023): [EU27 Natural Gas Imports \(by source\)](#).

<sup>3</sup> European Commission (2022): [Joint EU-Norway statement on strengthening energy cooperation](#).



Renewables account for 99% of electricity output. Norwegian electricity production is largely based on hydropower (88.2% in 2022) and a growing share of wind (10.2%).<sup>4</sup> Norway also shares the EUs climate targets of 55% GHG emission reduction by 2030 and climate neutrality by 2050. Greater energy efficiency and more renewable electricity will be crucial for reaching these targets while decarbonising the economy, supplying new, green industries and at the same time avoiding an electricity deficit with a corresponding risk of high price levels in the long-term. It is estimated that Norway will need additional electricity production of at least 40 TWh as well as energy efficiency savings of at least 20 TWh by 2030.<sup>5</sup>

- **Preliminary comments with reference to the questionnaire accompanying the public consultation:**

**Contracts for difference (CfDs):** LO Norway supports the use of CfDs based on competitive bidding to provide certainty to developers of new renewable energy technologies such as offshore wind. CfDs may also be used to support the development of the hydrogen economy. While we consider that the main decarbonisation potential of hydrogen to be in the hard-to-abate segments of the industrial and transport sectors, hydrogen may also be used as a source of flexibility in the electricity system.

It does not seem reasonable that all investments involving the use of public support should rely on CfDs. There may be certain aspects of new technologies which require public support to develop, but for which a CfD is not the optimal support model. LO Norway would furthermore be skeptical towards using CfDs for existing inframarginal generators, whether imposed or based on competitive bidding, as it is unclear how this would contribute to any increase in capacity or production. On the opposite, it could have a counterproductive effect.

**Power purchase agreements (PPAs):** LO Norway supports the use of PPAs to provide more predictability for both producers and consumers of electricity. Norwegian electricity-intensive industries account for about 40 TWh or 1/3 of electricity consumption, and the major share of this is bought through PPAs. Industrial consumers who entered into such long-term contracts ahead of the current energy price crisis have benefited from greater price stability. 50% of onshore wind is sold over PPAs, and industrial PPAs will be the main funding mechanism for new onshore wind projects.

**Inframarginal cap:** LO Norway generally supports resource rent taxation of electricity production determined on the national level. In 2022, the Norwegian resource rent tax for hydro power was increased (from 37% to 45%) and introduced for onshore wind (at 40%). In addition, an inframarginal cap similar to that agreed by the EU member states was introduced on a time-limited basis for both wind and hydro power.

LO Norway would advise against extending the inframarginal cap beyond its current limited timeframe through the reform of the European electricity market. A reduction of revenues in peak price hours affects the ability to estimate the profitability of new investments in flexible capacity, and could therefore hamper investments which are necessary to stabilise an electricity system with an increasing share of intermittent renewables.

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<sup>4</sup> Statistics Norway: [Electricity](#).

<sup>5</sup> [Final report of the Norwegian energy commission](#) (February 2023).