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Assessment of the draft National Energy and Climate Plan of Latvia

Accompanying the document

Commission Recommendation

on the draft integrated National Energy and Climate Plan of Latvia covering the period 2021-2030

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1. SUMMARY

Main observations[1]

- ✓ The overall objective of Latvia's draft plan is to ensure transition to low carbon economy that is competitive in the region and worldwide by developing a balanced and effective energy policy based on market principles, which promotes further development of the Latvian economy and welfare of the society. The draft plan make clear links to the programming of EU funds and underlines the role of regional cooperation, which reflects the cross-border relevance of many energy and climate challenges.
- ✓ As regards the **decarbonisation dimension,** Latvia's 2030 target for **greenhouse gas emissions** not covered by the EU Emissions Trading System (non-ETS) as set out in the Effort Sharing Regulation (ESR)[2] is -6 % compared to 2005. According to the main scenario of the projections, Latvia would miss this target by a small margin, but emissions over the whole period 2021-2030 would be in line with the estimated emissions budget that Latvia will have to comply with. However, a sensitivity analysis shows that it is also possible that emissions would exceed the budget.
- ✓ Realising the projected emission reductions will require implementation of some policies and measures that are not yet adopted and where financing is uncertain. The final plan would benefit from further details on the impacts and status of those policies, in particular in the transport and building sector, including which elements would depend on EU funding and why. The draft plan does not describe how the no-debit commitment (i.e. emissions do not exceed removals) as set out in the **Land use, land use change and forestry** (LULUCF) Regulation[3] and which is part of the overall non-ETS target, will be met.
- ✓ Latvia has set a **contribution to the EU renewable energy target** of at least 45 % in gross final consumption of energy for 2030, significantly below the 50 % share that results from the formula of Annex II of the Governance Regulation. This situation also requires an indicative trajectory in the final plan that reaches all reference points[4] in accordance with the national contribution in the final plan. The policies and measures in the existing scenario presented in the draft plan, with mainly existing measures, are not sufficient to achieve this target. The final plan would benefit from elaborating further on the potential policies and measures to allowing the achievement of these contributions and targets and on other relevant sectorial measures.

[1] In addition to the notified draft NECP this assessment also considers informal bilateral exchanges, which are part of the iterative process established under the Governance Regulation.
[2] Regulation (EU) 2018/842 of the European Parliament and of the Council of 30 May 2018 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement and amending Regulation (EU) No 525/2013.
[3] Regulation (EU) 2018/841 of the European Parliament and of the Council of 30 May 2018 on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry in the 2030 climate and energy framework, and amending Regulation (EU) No 525/2013 and Decision No 529/2013/EU.
[4] Pursuant to Article 4(a)(2) of Regulation 2018/1999.

- ✓ Latvia has set its national **energy efficiency** contribution for 2030 at 4.3 Mtoe of **primary energy consumption**, which has been converted into final energy consumption of 3.6 Mtoe. The proposed target could be considered of low ambition for primary energy consumption and of modest ambition for final energy consumption, considering the level of efforts required at the EU level to collectively reach the Union's 2030 efficiency target. The final plan would benefit from more detailed policies and measures, including their expected energy savings and timelines for implementation.
- ✓ As regards **energy security**, the draft plan puts forward an ambitious objective to reduce imports of energy and energy resources from third countries by 50 % compared to 2011 by 2030. The draft NECP mentions the Baltic synchronisation project and the Balticconnector pipeline as key energy security measures. The final plan will benefit from further information on regional cooperation in the dimension, and on policies and measures in place to protect the energy system from emerging risks.
- ✓ In the **internal market dimension,** Latvia is well above the EU **interconnection threshold**, and does not put forward an ambition level for 2030. More information is needed regarding the calculation of the interconnection level. The final plan would benefit from specific forward-looking objectives, targets and measures relating to this dimension.
- ✓ Latvia presents a competitiveness objective of being at the 40th place or above in the Global Competitiveness Index, the final plan will benefit from a description on how this translates into energy-related competiveness objectives, and how the presented policies and measures impacts competitiveness. Additional insights are needed in the **research, innovation and competitiveness dimension**, such as measurable objectives and funding targets to be achieved by 2030.
- ✓ Some policies and measures in the draft plan are put forward based on an assumption of Union funding. The draft NECP includes references to additional **investment needs** to achieve the energy efficiency and renewable energy contributions in the order of magnitude of annually 3 % of GDP, as well as national and Union funding sources for certain policies and measures. The final plan could still take better advantage of the role NECPs can play in providing clarity to investors and attracting additional investments in the clean energy transition.
- ✓ There is potential for intensifying already existing **regional cooperation** between Latvia and the other Baltic countries, extending them to new areas and broadening the geographic reach to include the Nordic countries.
- ✓ The draft NECP mentions that it will be updated once the National Air Pollution Control Program is finalised, in order to take cross-effects into account. The final plan would benefit from complementing the analysis of the interactions with **air quality and air emissions policy** and presenting impacts of policies and measures on air pollution.
- ✓ The issue of a **just transition** to a climate neutral economy could be better integrated throughout the plan by considering social and employment impacts, e.g. shifts in sectors/industries, distributional effects and revenue recycling. The draft plan would benefit from providing more details on the question of skills and training
- ✓ A list of all **energy subsidies** and actions undertaken and planned to phase them out, in particular for fossil fuels, need to be included in the final plan.

✓ A **good practice** is that the draft plan includes estimates of the binding trajectory for Latvia under the Effort Sharing Regulation and that projected emissions are compared to this trajectory. This gives a picture of the emissions development and target achievement over the whole period 2021-2030.

Preparation and submission of the draft plan

Latvia submitted its integrated National Energy and Climate Plan to the European Commission on 28 December 2018. The draft NECP consisted of the draft plan together with an annex describing policies and measures, an annex on GHG projections and Annex I part 2 template.

The preparation of the draft plan has been coordinated by the Ministry of Economics, and was supported by an inter-ministerial working group. The draft plan has been publicly available on the website of the Ministry of Economic since September 2018, and there have been several meetings with stakeholders in preparation of the draft plan.

Overview of the key objectives, targets and contributions

The following table presents an overview of Latvia's objectives, targets and contributions under the Governance Regulation[5]:

	National targets and contributions	Latest available data	2020	2030	Assessment of 2030 ambition level
	Binding target for greenhouse gas emissions compared to 2005 under the Effort Sharing Regulation (ESR) (%)	+8	+17	-6	As in ESR. Total GHG 2030 -55 % to 1990
	National target/contribution for renewable energy: Share of energy from renewable sources in gross final consumption of energy (%)	39.0	40	45	Below 50 % (result of RES formula)
	National contribution for energy efficiency: Primary energy consumption (Mtoe) Final energy consumption (Mtoe)	4.5 4.0	5.4 4.5	4.3 3.6	Low Modest

[5] Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council.

	Level of electricity interconnectivity (%)	80[6]	Not provided	Not provided	N/A

Sources: EU Commission, ENERGY STATISTICS, Energy datasheets: EU28 countries; SWD(2018)453; European Semester by country[7]; COM/2017/718; Latvian draft NECP.

2. ASSESSMENT OF THE AMBITION OF OBJECTIVES, TARGETS AND CONTRIBUTIONS AND ADEQUACY OF SUPPORTING POLICIES AND MEASURES

Dimension decarbonisation

Greenhouse gas emissions and removals

Latvia has set a target for total **GHG emission emissions** of -55 % by 2030 compared to 1990 (excluding LULUCF). This corresponds to a small increase in total GHG emission increase compared to 2005. Latvia has also set GHG intensity targets for 2020 and 2030.

In the provided projections, **emissions** in effort sharing sectors for 2030 are slightly higher than the **non-ETS emission target** of -6 % compared to 2005. Over the period 2021-2030, emissions are in the same order of magnitude as the estimated annual limits under the Effort Sharing Regulation[8]. Assuming that the LULUCF no-debit commitment will be met, the 2030 non-ETS target could hence be achieved domestically. However, a sensitivity analysis is also provided, where stronger economic growth and larger population has been assumed. This scenario leads to a deficit of 4.5 Million ton (Mt) CO_2eq over the period 2021-2030.

The WEM scenario includes some policies and measures that are not yet adopted and where financing is uncertain. The final plan would benefit from clearly distinguishing between existing and planned policies. For planned policies, describing the further process towards implementation and the estimated impacts of the policies would be beneficial.

Provisional policies and measures are described, however, it is not clear which policies and measures will contribute to the non-ETS target. The draft plan does not specify their expected impact on GHG emissions and it states that their implementation depend on the availability of EU funding.

For **transport**, alternative fuels are supported via different measures including vehicle taxation, benefits for electric company cars, possibility to use public transport lanes, support to charging. The draft plan also foresees the electrification of railway transport. Beyond this and the option of blending higher shares of biofuels and biomethane little information is provided on the planned implementation and the support for alternative fuels and the corresponding infrastructure.

The draft plan also lists a number of provisional measures for the **agricultural sector,** the second biggest effort sharing sector**,** and states that funding required for implementing the measures will

[6] Level indicated in the Latvian draft NECP.

[7] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-your-country_en.

[8] Regulation (EU) 2018/842 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030.

be determined in discussions about the allocation of support from EU funds. In this respect, the draft plan refers to the Common Agricultural Policy.

A number of policies for increasing energy efficiency and the use of renewable energy in the **building sector** are described, but without indications of the impact on GHG emissions.

The draft plan indicates a **LULUCF** value in equivalent to the full amount of credits that could be used by 2030 to comply with the Effort Sharing Regulation (3.1 Mt of CO_2eq)[9]. However, the draft plan does not provide enough information to assess how existing and additional LULUCF measures would generate such credits. With respect to the National Forestry Accounting Plan including the national Forest Reference Level, submitted by Latvia as required by Art. 8(3) of the LULUCF Regulation[10], the Commission has put forward substantial technical recommendations requesting action on a range of issues, detailed in SWD (2019) 213.

The Latvian Natural Resource Tax and its results could be mentioned and, if possible, assessed in terms of GHG emissions reduction.

As Latvia has yet to adopt its National Adaptation Strategy, the overarching goal and priorities of the draft strategy are mentioned only in general terms.

Renewable energy

Latvia has set a **contribution to the EU renewable energy target** of at least 45 % energy from renewable sources in gross final consumption of energy for 2030. This is significantly below the 50 % share that results from the formula of Annex II of the Governace Regulation, a situation which would also require an indicative trajectory in the final plan that reaches all reference points in accordance with the national contribution in the final plan. According to policies and measures in the existing scenario, the share of renewable energy will be 41 % in 2030, and therefore additional efforts are needed in order to achieve the target. An explanation of the assumptions and methodology behind the renewable contribution would enrich the final plan. The expected contribution in absolute values of ktoes is not yet included.

For **renewable energy in the electricity sector**, the draft plan lacks a target for 2030. There are a few policies and measures provided, but the draft plan needs further details on how renewable energy in the electricity sector will be supported to attract the investments needed and which capacities and technologies are foreseen until 2030, which will also contribute to investor certainty. The draft plan indicates a possible cooperation on offshore wind deployment with Lithuania/Estonia.

For the **heating and cooling sector**, the draft plan indicates that after 2020 the share is expected to be above 50 % but below 60 %, excluding waste heat. Latvia still expect renewable energy shares to increase of at least 0.55 percentage points on average per year over the two five-year periods. According to the draft plan, and if the renewable energy shares in heating and cooling remain at 52 % by 2020, the share of renewable energy in the heating sector will have to reach at

[9] Regulation (EU) 2018/842 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030.

[10] Regulation (EU) 2018/841 on greenhouse gas emissions and removals from land use, land use change and forestry.

least 57.5 % by 2030. The proposed policies and measures have been selected to increase competitiveness of existing district heating systems by improving their energy efficiency. Latvia aims to increase the renewable shares in district heating and cooling by about 0.8 % to 1 % reaching 57.6 %. Limited detailed and quantified information for policies and measures that will enable the transition to renewable energy in heating and cooling and district heating and cooling are included in the draft plan.

In the **transport sector**, the planned renewable energy share is 14 % in 2030. The draft plan includes the advanced biofuels trajectory reaching 3.5 % in 2030 and although Latvia expects to cap food and feed based biofuels to a maximum of 6 % no detailed information were provided if this will be the share in 2020. The final plan would benefit from including the contributions of all eligible fuels as well as the limits for conventional fuels produced from food and feed crops, applicable multipliers and the sub target for advanced biofuels for the 2030 target in accordance with Articles 25-27 of Directive 2018/2001[11]. Although a mandatory biofuel blending obligation is expected it is not clear if this will be an obligation on the fuel supplier in 2030. There are a few indicative measures put forward in the draft plan such as bio methane production and supply for use in transport and mandatory blending of biofuels, but impacts of the measures and details on financing remains unclear.

For the **policies and measures** Latvia provided policies and measures which follow main lines of actions including tax measures, EU funding and promoting self-consumption. Little information was provided on streamlining of administrative procedures and the establishment of a "one stop shop" that Latvia aims to establish in 2020.

Dimension energy efficiency

Latvia has set its national contribution for 2030 at **4.3 Mtoe** in **primary energy consumption**, which is then translated into final energy consumption of **3.6 Mtoe**. The national contribution for primary energy consumption is lower by 19.5 % compared to the indicative energy efficiency target set for 2020 (5.4 Mtoe) and 20 % lower for final energy consumption if compared to the 2020 target (Latvia has taken 2020 target as a baseline). If compared to the latest energy consumption levels in 2017, the 2030 target is 3% lower for primary energy and 11 % lower for final energy.

The proposed target could be considered of low ambition for primary energy consumption and of modest ambition for final energy consumption, considering the level of efforts required at the EU level to collectively reach the Union's 2030 efficiency target. With limited information on the impacts of the policies and measures in the draft plan, it is unclear if the indicated policies and measures are sufficient to meet the targets set.

Although the level of the **energy efficiency target** is provided, the underlying methodology is not described in detail. In setting its ambition level, Latvia has taken into account the synchronisation with the European continental electricity network and capacity increase of 80 % due to interconnections with its neighbouring countries, but how these factors affect energy consumption are not mentioned in the draft plan. The draft plan indicates gross inland electricity consumption is projected to increase by 150 % compared to 2020 level.

[11] Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources.

The draft NECP provides that the projected impact of planned energy efficiency policies on primary energy consumption would be around 12 PJ in 2030 (0.286 Mtoe). The estimated impact per sector is also provided based on cost-optimization: services sector 3.3 PJ (0.0788 Mtoe); industry: 3.4 PJ (0.0812 Mtoe) ; transport 1.4 PJ (0.0334 Mtoe) and households 6 PJ (0.143 Mtoe). In the analytical part of the draft plan there is reference to current policies and measures supported by the EU structural funds. It is assumed, if confirmed, that the same energy efficiency programmes, e.g. for households and services will be supported in the next planning period.

Latvia included some general information relating to policies and measures for **buildings** that could be implemented as part of its long-term renovation strategy, and the key elements that need to be submitted in the final plan together with information on energy savings under Art.5 of the EED[12]. The plan mentions measures that contribute towards more efficient organisation of the mobility system and thus towards improved energy efficiency and emissions reductions (e.g. investments in the TEN-T network, investments in public transport, promotion of active modes). The plan could benefit from more explicit reference and detail with respect to multimodality and modal shift enabled by the completion of the Rail Baltica project, as well as digitalisation and automation in the different transport modes.

In relation to energy saving obligation under Article 7 of the EED[13], preliminary amount of cumulative savings of 1.71 Mtoe (19.871 GWh) is provided to be achieved over the 2021-2030 period, which would be achieved via an energy efficiency obligation scheme and alternative policy measures. Detailed information on the draft plan should be provided in the final plan, in line with Annex III of the Governance Regulation[14].

Dimension energy security

The draft plan includes a national target to decrease the energy dependency and reduce the import of energy and energy resources from third countries by 50 % compared to 2011 by 2030. **This target is an ambitious target and it applies to all sectors**.

It is stated that the existing policies already contributed to a decrease of dependency from 2013 to 2016 by 8.7 % and that no other policies are needed. The information provided is mostly descriptive of the current situation and past trends and does not include details on concrete measures taken or envisaged or policy related projections. The existing policies mostly focus on infrastructure projects which should contribute to achieve the target. Information on how existing policies will contribute to decrease energy dependency per sector, would be welcome in the final plan.

The final plan could benefit from describing risks and their mitigation linked to the current integration of the Latvian electricity system in the Belarus-Russia-Estonia-Latvia-Lithuania (BRELL) system and the mitigation measures until full synchronization with Continental Europe.

With regards to increasing the flexibility of the national energy system the draft plan does not foresee any objectives or targets for the role of the demand response or storage in future electricity system.

[12] Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency as amended by Directive (EU) 2018/2002.
[13] Directive 2012/27/EU on energy efficiency.
[14] Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action.

The final plan would benefit from further information on the current policy and measures in place to protect the energy system to emerging risks, in particular on cybersecurity, and to protect critical energy infrastructures.

Dimension internal energy market

The **level of interconnection** in Latvia is above 15 %, and the draft NECP does not put forward an interconnection level Latvia aims for in 2030, or how Latvia complies with the the thresholds[15], which serve as urgency indicators of the need to develop further interconnection capacity.

The draft plan contains only limited information on current market situation, general market functioning and possible market-related problems, which should set the scene for setting targets and designing policies and measures. Quantitative core parameters, e.g. wholesale and retail market concentration levels, indicators for market liquidity such as traded volumes and market participants, switching rates etc. are needed to assess the functioning of the market and to identify possible remaining obstacles to enter the market.

As competitive markets are a key enabler for other dimensions of the Energy Union, objectives related to the further development of wholesale and retail market competition and corresponding measures and timelines merit being included in the final plan.The draft plan describes a study carried out by the Latvian electricity transmission system operator that analyses three different generation adequacy scenarios. The scenarios A and B arrives at the conclusion that there will be an electricity deficit in Latvia which establishes the need for import form the neighbouring countries. It is not clear if the scenarios of the Latvian transmission system operator are part of the objectives and targets which will be basis for the national policies. Furthermore, the possible necessary imports from neighbouring countries have to be analysed in the regional context, especially looking at the generation capacity and import needs of the neighbouring countries.

The draft plan presents targets, objectives and a timeline for roll-out of smart meters, but the final plan will benefit from further information on other retail market issues including smart grids, demand response and aggregation, storage, distributed generation, consumer protection and competitiveness in the retail energy sector.

The draft plan contains information on policies and measures, including welcome details on the aggregation model, however the final plan would benefit from presenting the information in a way that relates to concrete objectives and targets, as well as from including quantitative indicators.

In order to accommodate for a higher renewable share in the electricity sector, different sources of flexibility is needed in the market. New legislation is being developed on the operators of aggregators in the electricity market. In the area of **overall system flexibility** the final plan would benefit from more information on barriers for new market participants and the updake of difference sources of flexibility(demand response, storage, distributed generation).

[15] Price differential in the wholesale market exceeding an indicative threshold of EUR 2/MWh between Member States, regions or bidding zones; nominal transmission capacity of interconnectors below 30 % of peak load; nominal transmission capacity of interconnectors below 30 % of installed renewable generation.

The draft plan notes that from 2018-2021, there will be work done assessing the situation regarding **energy poverty** in Latvia, and targets for reducing and/or limiting energy poverty will be presented thereafter together with policies and measures if needed.

Dimension research, innovation and competitiveness

In this dimension, Latvia puts forward national strategies with a 2020 horizon**.** The policies and measures presented in the Latvian draft NECP are extracted from national guidelines covering the period 2014-2020, but are presented as also being indicatively implemented in the period after 2020. It is not clear however, which objectives Latvia aims to achieve with the continuation of these policies and measures after 2020. As regards the 2050 horizon, Latvia lists general enabling conditions for research and development in low-carbon technologies.

Latvia presents a general competitiveness objective of being at the 40th place or above in the Global Competitiveness Index by 2030 in their draft plan. The NECP would be rendered more comprehensive if this was expanded to cover specifically the low-carbon technologies sector, including for decarbonizing energy and carbon-intensive industrial sectors, accompanied with an analysis on where said sector is currently positioned in the global market, highlighting areas of competitive strengths and potential challenges. Measurable objectives for the future should be defined on that basis, together with policies and measures to achieve them, making appropriate links to enterprise and industrial policy.

As regards cooperation with other Member States, Latvia mentions its current participation to the Smart Specialisation Platform and cooperation programme between Nordic Member States and Baltic Member States in the energy field, but lacks a forward-looking approach to be implemented in the period 2021-2030. Moreover, no commitment is provided as regards implementation of the priorities decided under the **Strategic Energy Technology (SET) Plan**.

In line with the binding template, the final plan needs to include specific research and innovation objectives and a description of policies and measures until 2030, so it is possible to understand how these will contribute to collectively achieving the Energy Union objectives in this dimension.

3. COHERENCE, POLICY INTERACTIONS AND INVESTMENTS

The draft NECP does not address interactions between policy dimensions, although several of the proposed policies and measures are likely to influence other dimensions. In general there are large synergies between renewable energy and other emission reduction policies, and on energy security such as supply diversification and reduction of import dependency. However, the draft NECP does not quantify the supply of biomass for energy purposes in Latvia and its sustainability and impact on the LULUCF sector has not been quantified.

Considering the relevance for greenhouse gas emission reductions, the final plan could reflect interactions with the **circular economy**. The Latvian Natural Resource Tax and its results could be mentioned and if possible, assessed regarding contribution to reduced GHG emissions.

The plan does not cover **biodiversity** and the role of **ecosystem services** for mitigation and adaptation as well a the potential trade-offs with climate and energy policies. Doing so would highly improve the comprehensiveness of the final version.

As regards the interactions with **air quality and air emissions policy**, the draft plan mentions that it will be updated once the National Air Pollution Control Program is finalised, in order to take cross-effects into account. Adding such quantitative information will contribute to improving the consistency of policies.

The draft NECP does not consider how climate change risks might affect energy supply (e.g., wildfires and storms destroying biomass resources and power networks, availability of hydro power). Information is also lacking on adaptation co-benefits for energy efficiency, such as in the thermal management of buildings.

Besides a generic reference to **energy efficiency first principle**, there is no explanation how this first principle is applied in the assessment of policies and investments of each dimension of the draft plan.

The issue of a **just transition** to a climate neutral economy could be better integrated throughout the plan by considering social and employment impacts related to a green/circular economy. For example shifts in sectors/industries (and skills impacts), distributional effects (and energy poverty) and revenue recycling. The draft plan would benefit from providing more details on the question of skills and training. It would also benefit from considerations in terms of costs and benefits as well as cost effectiveness of planned policies and measures. Energy prices projections and developments would also be beneficial additions.

Latvia's draft plan includes scattered references to **investment needs**, expenditures and funding sources for certain objectives and policies and measures. Latvia has calculated that it will have to invest additionally (to baseline scenario) at least 0.21 % of GDP to achieve the indicated contribution to the EU renewable energy target and specifies investment expenditures of EUR 150 million up to 2030 for renewable measures in the district heating, and heating and cooling sectors, of EUR 400 million for transport and EUR 100 million for biomethane. To achieve the indicated energy efficiency contribution, additional investments needs during the period 2020-2030 are estimated at around EUR 5 billion (at 2010 prices), amounting annually to around 2.8 % of GDP. More than half fall on households and around a quarter on industry. Expenditures of EUR 660 million are indicated for measures on energy efficiency in the district heating, heating and cooling, and building sectors. Around EUR 1 billion expenditures are foreseen for research and innovation.

Regarding funding sources, EU Structural and Investment Funds are considered as a main source and revenues from the auctioning of emission allowances including the Modernisation Fund are listed among the financial sources to cover these investment needs. For a carbon price of EUR 20, the Modernisation fund share of Latvia would represent EUR 90 million[16]. Some investment needs could partly be covered by cohesion policy funding, notably in line with the investment analysis for 2021-2027 of the 2019 European Country Semester Report for Latvia and with any relevant legislation.

Links with the European Semester

[16] The figure is based on the amounts established in Directive (EU) 2018/410 and is subject to various uncertainties, such as the possibility to transfer allowances available pursuant to Article 10c to the Modernisation Fund.

- Identifying financing needs and securing the necessary funding will be key to deliver on energy and climate objectives. The Commission addressed this question as part of the 2019 European Semester process.

- Based on the 2019 Country Report for Latvia, published on 27 February 2019[17], the European Commission's recommendation for a Council recommendation for Latvia issued on 5 June 2019[18], in the context of the European Semester, highlights in particular the need to invest in '*transport notably on its sustainability, resource efficiency and energy efficiency, energy interconnections'*.

- When preparing its overview of investment needs and related sources of finance for the final plan, Latvia should take into account these recommendations and links to the European Semester.

The draft plan describes **subsidies** and future measures mainly for renewable energy, including biofuels. The European Commission report on Energy Prices and Costs in Europe[19], based on internationally used definitions, also identifies energy subsidies in Latvia, including subsidies for renewable energy sources and fossil fuels. It would thus be important that the final plan includes a description of all existing energy subsidies, including for fossil fuels (section 4.6iv of the plan) as well as of the national policies, timelines and measures to phase out energy subsidies, in particular for fossil fuels (section 3.1.3iv of the plan).

4. REGIONAL COOPERATION

Latvia is part of the Baltic Energy Market Interconnection Plan (BEMIP). BEMIP's main objectives are to develop an internal and regional energy market between the EU Member States in the Baltic Sea region and integrating it fully into the EU's energy markets thus increasing security of supplies.

There is significant potential for further regional cooperation in the **internal energy market** and **energy security** areas, in particular with a view to the changes in the electricity system accommodating higher shares of renewable energy and electricity imports, and characterised by an increased need for flexibility. In addition to cooperation in the electricity market, the creation of a regional gas market comprising Finland and the Baltic States from 2020 will contribute to reducing the dependency on natural gas imported from third countries and opening the market for competition.

Further on security of supply, there is a significant potential to strengthen regional cooperation in the areas of security of supply and for example update the 2012 regional joint assessment of the risks affecting the security of gas supply. On the internal market, where the draft plan already highlights the regional dimension, further cooperation could include, for instance, a regional approach when assessing system adequacy as foreseen in the new Electricity Regulation[20].

[17] SWD(2019) 1013 final: Country Report Latvia 2019.
[18] COM(2019) 514 final: Recommendation for a Council recommendation on the 2019 National Reform Programme of Latvia and delivering a Council opinion on the 2019 Stability Programme of Estonia.

[20] Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity.

Decarbonisation of the transport sector plays a significant role in achieving the long-term climate and energy targets. This is a challenging area for the Baltic states as evidenced for example by the recent figures on the shares of renewable energy in transport (0.4 % in Estonia, 2.5 % in Latvia and 3,7 % in Lithuania in 2017, compared to the 2020 target of 10 %[21]). Harmonising development of charging and refuelling infrastructure between neighbouring countries, also between the Baltic and the Nordic countries, is highly beneficial.

Research is another area in which regional cooperation based on the draft NECPs could effectively be pursued further, taking into account the work of existing cooperation platforms such as the Nordic Energy Research can be effective in promoting the achievement of Energy Union objectives of driving the energy transition and improving competitiveness. The Nordic Energy Research (NER) cooperation platform facilitates an interaction between research strategies, results and key technical issues on the political agenda, as well as funding research of joint Nordic interest. It has a key role to play in expanding knowledge on sustainable energy and contributing to the development of new, competitive energy solutions.

5. COMPLETENESS OF THE DRAFT PLAN

Information provided

The **decarbonisation dimension** of Latvia's draft NECP is partially complete with respect to the required information. With respect to **greenhouse gases**, some clarification is needed regarding the status of policies and measures. The impact of policies and measures on achieving the non-ETS target cannot be assessed based on the information provided in the draft plan. Moreover, policies and measures are described only in an annex, not referred to in the main document. The draft plan does not apply the accounting rules as set out in the LULUCF Regulation[22], which are necessary to assess if Latvia would achieve its overall non-ETS target.

As regards **renewable energy**, main elements required under the dimension for the objectives and targets and the policies and measures are partially provided. For the objectives and targets no information on renewable energy technologies to achieve the overall sectoral trajectories for renewable energy from 2021 to 2030. Planned capacities are generally described but are not split between new capacities and repowering. There is no inclusion of trajectories of bioenergy demand, their disaggregation between heat, electricity and transport, and trajectories on biomass supply (by feedstocks and by origin), trajectories for forest biomass, and an assessment of its source and impact on the LULUCF sink. No information was provided on training, facilitation of the uptake of power purchase agreements and renewable energy communities.

In the area of **energy efficiency**, there are a number of missing elements, some of which Latvia pledges to provide in the final version of the plan. There is no information on impacts of policy measures and national circumstances, including impact of the synchronisation on the level of national contribution to the EU energy efficiency target for 2030. In addition, there is no assessment of policy interaction of the existing policies and measures with the planned ones within the energy efficiency dimension, and with other dimensions. Also the information on total

[21] Eurostat.
[22] Regulation (EU) 2018/841 on greenhouse gas emissions and removals from land use, land use change and forestry.

floor area to be renovated or energy savings to be achieved by 2030 under Article 5 EED[23] on measures promoting energy services in the public sector is not provided.

Key elements of the long-term renovation strategies (indicative milestones, the roadmap with measurable progress indicators, an estimate of the expected energy savings and wider benefits and the contribution of the renovation of buildings to the Union's energy efficiency target for 2030) are also missing.

On **energy security**, information is needed on how future electricity generation adequacy will be ensured in light of the renewable energy target, including on demand response and storage. The final plan should include measures on regional cooperation when assessing generation. Information on existing risk preparedness plans and the target date for the plans of the Risk Preparedness Regulation is welcome in the final plan, as well as a description of measures on cybersecurity. For increased information on how Latvia plans to diversify their gas supply and deal with constrained supply, the existing preventive action and emergency plans for gas as well as information on how the target to decrease energy dependency, in particular for gas, will be reached. References to oil stocks and emergency procedures will benefit the final plan.

On the **internal market**, the draft plan contains only limited information on core quantitative parameters on the functioning of the national retail and wholesale gas/electricity markets, preventing a full assessment of the draft plan. Additional information on the aspects listed under market integration is required, in particular on system flexibility, in light of the forseen increase in renewable electricity generation, as well as objectives and strategies to further develop competition in the market. The effect of synchronisation on market integration should be elaborated, as well as the progress of the synchronisation related infrastructures on the Latvian territory. On infrastructures, calculation methods for the 15 % interconnection target are not provided. The draft plan contains information on prices in the retail market, but no other description of the current situation in retail markets. The final plan should also provide a description of both the current situation of the gas market as well as any relevant objectives, targets and policy measures.

No assessment has been included regarding just transition issues. Relevant issues that could be considered in the final plan in line with the requirements set out in the Governance Regulation include those impacting carbon-intensive activity

The information provided related to **research, innovation and competitiveness** is largely incomplete. While identifying research domains that could potentially receive attention, the draft NECP is missing concrete measurable objectives and funding targets to be achieved by 2030. The draft plan does not include specific measurable 2050 national objectives related to the promotion of clean energy technologies and deployment and does not include objectives related to competitiveness. Information on policies and measures is mostly limited to the period until 2020 only, and a clear description of cooperation with other Member States in this area is not included.

Robustness of the Latvian draft National Energy and Climate Plan

Some of the required elements of the **analytical basis** are addressed in Latvia’s draft plan. It presents in the suggested voluntary template a with existing measures (WEM) scenario, which

[23] Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency as amended by Directive (EU) 2018/2002.

nevertheless includes some planned policies and measures. The draft plan does not contain a with additional measures (WAM) scenario per se. However, it does provide an impact assessment (including a sensitivity analysis based on the baseline projection, i.e. the WEM scenario), which will be updated in the final plan.

The draft plan uses a mix of data sources including the the International Energy Agency, Eurostat, the central statistical bureau, national publications and studies, the Ministry of the Economy, the national institute of energy research (FEI).

The **WEM projection** covers the five dimensions of the Energy Union. Additional information would be desirable on: (i) the differentiation of sectoral GHG emissions between those covered by the EU ETS and those falling under the Effort Sharing Regulation, (ii) non-GHG air pollutants and (iii) investment needs.

The projections are presented in a **transparent** way. All main parameters (GDP, prices) are reported. Additional information would be desirable on technology costs and cooling degree-days. The draft plan describes the model used for the energy system (of the MARKAL family).

The **impact assessment** contains details on GHG emissions and mentions the macroeconomic impacts including investment needs in an aggregated way. The finalisation including an update of the existing parts is announced for the final plan, which should complete the assessment of macroeconomic and, to the extent feasible, the health, environmental, employment and education, skills and social impacts, including just transition aspects.. Evaluating the **robustness** of the impact assessment would be facilitated by providing more information about how the policies described in section 3 are represented in the projections and an evaluation of the impact of single or small groups of policies.

The model based projections of population and total final energy consumption are in line with EUROSTAT figures for the base year 2015. Deviations can be observed for total primary energy consumption and renewable shares (for electricity, heating and cooling and transport). The draft plan follows the EU ETS carbon price assumptions recommended by the Commission and own assumptions for international fuel prices.