

Informative Report

Long-Term Energy Strategy of Latvia 2030 - Competitive Energy for the Society

Energy is one of the sectors that directly affects national economy growth and forms a significant part of overall expenses in several industry branches, especially in the manufacturing industry. The key factor underlying industrial growth has been and will continue to be the sustainably lowest possible energy price, which also includes security and quality. The development of the energy sector requires significant investments for the attraction of which a stable and predictable investment environment is required. Considering that large investment energy projects impact the sector even the next 50 years, a long-term vision of the development of energy policy is required because the energy policy framework shall be consistent with the planning period of investments of the sector. On the EU scale, energy policy is currently outlined for the time period until 2050, and the European Commission wishes to lay down energy targets binding on or indicative for the Member States during this time period. In the same vein, industry representatives have taken a long-term approach to the development of projects, for example, the sector's largest European organisation - the Union of Electricity Industry *Eurelectric* - makes forecasts and defines objectives until 2050. Most EU Member States, including Lithuania and Denmark, have developed long-term energy strategies.

At present, several policy planning documents cover the development of the energy sector in Latvia, however, they do not provide sufficient basis for the long-term development. The hierarchically highest long-term development planning document - the Sustainable Development Strategy of Latvia until 2030 (hereinafter - Latvia 2030) - sets the ensuring of energy independence of Latvia as the key objective in the energy sector through increasing the self-procurement of energy resources and integrating into the EU energy networks. Although there is no doubt that the security, safety and quality of energy supply are important preconditions, when analysing the interaction of the energy sector with other sectors, the price of energy should be considered as even more important factor, which directly influences the national economy growth.

More detailed energy policy of Latvia is planned for the time period until 2016, by developing the Guidelines for the Development of Energy Sector for 2007 - 2016 (hereinafter - the Guidelines). The purpose of the Guidelines was to develop a strategy for the functioning of a secure energy supply system which uses resources efficiently, that provides the efficient use of energy, life standard, economic growth and the quality of environment. The analysis of the development of the energy sector, especially the price, establishes that economic growth may be jeopardised and therefore setting of new policy objectives is required. A number of global factors and circumstances, that prevailed at the time of the development of the Guidelines, shall also be taken into account in comparison with the current situation. Thus, for example, in 2006 when the Guidelines were drafted, alongside the planned economic growth the forecasts for energy consumption were much higher than the current consumption. In 2011, the consumption of primary energy resources amounted to 52.4 TWh in Latvia. According to the forecasts laid down in the Guidelines for 2007-2016, the consumption of primary energy resources will reach 68 TWh in 2020; according to the current forecasts it will reach 58 TWh and 60 TWh in 2020 and 2030 respectively. Similarly, a range of events in the Latvian, Baltic region, EU and global energy markets has significantly changed the objectives and forecasts laid down in the Guidelines.

To ensure the ability of Latvia's energy supply system to flexibly and effectively integrate into the regional and EU energy markets, Latvia requires a long-term vision for the development of the energy sector. Therefore, the Ministry of Economics has developed an informative report on energy policy planning guidelines for the period up to 2030 - Long-Term Energy Strategy for 2030 - Competitive Energy for the Society (hereinafter - the Strategy 2030). The key objective of the Strategy 2030 will be achieved if the energy sector has an overall favourable impact on the economy of Latvia. The security and sustainability aspects of energy supply must be viewed as subordinated, although no less important objectives.

The Strategy 2030 supplements and broadens preconditions for the development of the energy sector as laid down in Latvia 2030. A new detailed planning document, based on the key directions laid down in the Strategy 2030, will have to be developed for a shorter planning period by 2020. This planning document will require link to the hierarchically highest national level medium-term planning document - the National Development Plan for 2014 - 2020 (hereinafter - the NRP 2014-2020), which is closely related to Latvia 2030 and the National Reform Programme for the Implementation of the EU2020 strategy (hereinafter - the NRP).

The Strategy 2030 was developed with a view to offer a new energy policy scenario which looks not only at the development of the energy sector, but also views it in the context of climate policy - the framework binding on the EU for cutting greenhouse gas (hereinafter - GHG) emissions. In accordance with the NRP, Latvia aims to limit total national GHG emissions in order for them not to exceed the equivalent of 12.19 Mt CO₂ in 2020, that will ensure the fulfilment of Latvia's international commitments to cut GHG emissions. The desirable estimate of the European Commission on the EU scale is to cut GHG emissions in the energy sector by 93-99% by 2050 in comparison with 1990.

Various scenarios have been analysed by engaging many energy experts in the development of the Strategy 2030:

- a base line scenario providing for the continuing of the current energy policy;
- an energy efficiency scenario under which the base line scenario would be supplemented by the energy efficiency objective (heat energy consumption by households of 153 kWh/m² and 100 kWh/m² in 2020 and 2030 accordingly);
- an energy efficiency scenario with an additional objective to increase the proportion of renewable energy sources (hereinafter - RES) in Latvia's gross final energy consumption by up to 40%, and the proportion of energy produced from RES in the final energy consumption of transport by up to 10% starting from 2020 (maintaining this share by 2030);
- an energy efficiency scenario with an additional objective to increase the RES proportion in Latvia's gross final energy consumption by up to 40% and 50% in 2020 and 2030 accordingly, including to increase the proportion of energy produced from RES in gross final energy consumption in transport to 10% and 12.5% in 2020 and 2030 accordingly;
- an energy efficiency scenario with an additional objective to increase the proportion of RES in Latvia's gross final energy consumption up to 58.5% and 75% in 2020 and 2030 accordingly;
- an energy efficiency scenario with an additional GHG emission limit set at 8550 Gg from 2020 onwards.

Analysing the forecasts of the base line scenario, a decline in the use of RES is envisaged for 2030 comparing with the situation in 2012 and, accordingly, a significant increase in the use of fossil energy resources. Continuing the current energy policy, the proportion of RES in Latvia's gross final energy consumption is forecast at 36.7% and 33.6% in 2020 and 2030 accordingly. In its turn, the share of energy produced from RES in the final transport consumption is forecast at 3.6% in 2020 and 2030. Unless changes are implemented in energy policy planning, Latvia's energy sector will not foster the achievement of the climate policy objectives, especially the reduction of GHG emissions. Therefore, viewing energy policy in the broader context and having considered the objectives and policy of the sectors impacting it, the Strategy 2030 offers solutions that are economically most beneficial for the development of a balanced and sustainable energy and climate policy, as well as the successful achievement of the national and EU objectives.

Considering that the integration of Latvia's energy market with the EU markets forms a part of the long-term planning, a regional approach has been employed in the Strategy 2030. Considering the comparatively small energy markets of the three Baltic States, the historically close level of cooperation among them, such as the cooperation of operators of the Baltic transmission system which established BALTSO that is considered a successful example of institutionalised cooperation, as well as the opportunity to improve the infrastructure of energy interconnections, regional scale market solutions prove to be the economically most advantageous solutions.

Regional cooperation among the Baltic States currently plays an important meaning and role not only in terms of the development of the energy policies and energy markets of the three states, but in broader terms as well - comprising Finland, Sweden, Poland, Denmark and Germany. On the EU level, the Baltic Energy Market Interconnection Plan (BEMIP) has been established; it covers the planning of infrastructure, fostering the attraction and efficient use of financial resources, including the Connecting Europe Facility instrument intended in 2014 within the framework of which only cross-border energy projects will be supported, thereby strengthening cooperation within the framework of the Baltic region.

Furthermore, the regional approach, as strengthened by market and technological neutrality principle, makes the Strategy 2030 flexible. The flexibility of the Strategy 2030 has a range of advantages:

- the ability to effectively determine the directions of energy sector development, by adjusting market regulations according to changes in the external environment;
- the ability to achieve the performance indicators laid down in the Strategy 2030, regardless of the implementation of individual energy projects and the course of technological progress;
- failure to implement specific policy initiatives does not affect the other initiatives or jeopardize the implementation of the objectives laid down in the Strategy 2030.

Within the scope of the Strategy 2030, the long-term energy policy is planned based on the updated national economy development forecasts, including demography, GDP and industry development trends for the time period up to 2030, as well as considering the EU framework, binding on Latvia, especially within the context of renewable energy sources, energy efficiency and emissions.

1) Objectives and performance indicators of the Strategy 2030

In order to ensure a balanced energy policy that is consistent with economic and social interests, **the main objective** of the Strategy 2030 **is to establish a competitive economy**, by developing a well-balanced, effective, market-principle based energy policy, which ensures the further development of the Latvian economy, its competitiveness in the region and worldwide, and welfare of the society. The development of a regional energy resource market will contribute to affordable appropriate energy prices for companies and consumers, as well as future price signals which will serve as the basis for energy supply sustainability and will foster a secure and continuous energy supply. Proper implementation of the Strategy 2030 would result in the positive impact of the energy sector on the economy of Latvia, hence the interaction of individual sectors must be taken into account. The (draft) Guidelines on the National Industrial Policy for 2013-2020 set forth the policy performance indicator to be achieved - **to increase the share of manufacturing industry to 20% of the total economy**. In the forecast value of the performance indicator of the NRP 2014-2020 priority "National economy growth", the share of manufacturing industry in GDP is 20% in 2020. In 2011, it was 14.1%. Considering the high energy intensity of the manufacturing industry, the achievement of this indicator will be critically affected by the successful implementation of energy policy.

Sustainable energy is a secondary objective of Strategy 2030, which provides for the sustainability of energy in terms of economic, social and environmental aspects. This will be achieved by improving energy efficiency measures and promoting the use of RES technologies. Energy efficiency should become a horizontal cross-sector policy objective to be included in other policies, such as regional and urban development, transport, manufacturing policy, and agriculture. This sub-objective is consistent with the EU sustainability objective, and contributes to the achievement thereof. The policy that adjusts market signals should be proportionate in order not to restrict the growth of the economy. The achievement of the objective will depend on the availability of the appropriate infrastructure, which would ensure flexible responses to changes in the resource and consumption structure.

Increasing the security of energy supply is a sub-objective aimed at affordable and stable energy supplies to energy consumers, through reducing geopolitical risks, diversifying supply routes, developing energy infrastructure, setting aside reserves, and engaging in the improvement of the international regulatory framework. Improving the security costs of energy supply in long-term requires regional cooperation in project planning and funding.

One of the policy performance indicators to be achieved which will testify to increased energy security and sustainability is the as wide as possible use of RES. Therefore Strategy 2030 lays down the non-binding objective of **ensuring a 50% proportion of RES energy in gross final energy consumption** in 2030. This will be achieved by increasing the proportion of RES in heating, electricity and transport sectors. In 2011, the proportion of RES in Latvia's gross final energy consumption accounted for 33.1%. It is possible, however, that after analysing the achievement of the binding objective of 2020 - 40%, the adjustment of this performance indicator will be necessary.

The security and sustainability of energy supply are also ensured by well-diversified energy and energy resource import, by concurrently developing regional energy production capacity. Therefore Strategy 2030 lays down another desirable policy performance indicator for 2030 - **to reduce energy and energy resource import from current third country suppliers by 50%** comparing with 2011. This is to be achieved by the new supply channels of energy and resources and sources thereof entering the market, as well as the development of a new and

sustainable energy infrastructure. In 2011, energy resource import from the states other than the European Economic Area Member States amounted to 28.2 TWh, including natural gas import of 16.4 TWh, petroleum product import of 9.7 TWh, coal and coke import of 1.1 TWh and electricity import of 0.9 TWh.

At the same time the achievement of the primary objective and sub-objectives laid down in the Strategy 2030 will be significantly impacted by energy efficiency and its measures taken not only in all energy sub-sectors, but also in other sectors. Therefore the Strategy 2030 has set reducing **the average consumption of thermal energy for heating by 50%** against the current indicator, which together with the climate change adjustment amounts to about 200 kWh/m² per annum (202 kWh / m² in 2009), as another performance indicator to be achieved. This has considerably declined over the last 20 years (304 kWh/m² in 1990). This indicator is fairly ambitious to attract investments and improve the energy efficiency of buildings, whilst tackling the improvement of energy efficiency in manufacturing processes, which is one of the preconditions for competitiveness.

2) Challenges and policy instruments for the achievement of the objectives

It is planned that the objectives of the Strategy 2030 will be achieved, firstly, by rectifying **policy mistakes** and avoiding them in the future, as well as by preventing and rectifying **market deficiencies**, and using policy instruments to develop an effective and competitive energy market.

Policy mistakes

In terms of energy policy, the role of the State is to create a foreseeable and favourable environment to foster the sustainable development of the sector and investments therein, concurrently ensuring that its involvement does not distort the functioning of the market. Up to now the intervention in the functioning of energy markets has resulted in several mistakes on the national scale which have had a negative impact on the energy sector, as well as on the economy in general failing to achieve the desired outcome. The most significant mistakes have been identified within the framework of the Strategy 2030 with a view to effectively preventing them in the future. **Up to now the policy mistakes** and the ways of rectification thereof are as follows:

- currently energy policy lacks neutrality in the choice of technologies, and the State has been excessively intervening in the choice of technical solutions, for example through its renewable energy support. It is therefore planned that any political decisions regarding the technologies to be used in energy production or consumption will be avoided in the future, except in specific situations where a particular technological solution has been widely recognized as the most suitable and economically justified solution, and where such support is limited in time and sets clear assessment criteria;
- economic incentives aimed at ensuring a balanced, economically justified and cost-effective development of RES (environment, safety of energy supply, discharge of international commitments) are not promoted in the right or sufficient way on the national scale. In the future, economic incentives will be created with the help of indirect signals (for example by promoting consumption in contrast to production subsidies);
- up to now the lack of transparency and availability of information can be observed in the energy industry in terms of the support, production and use of renewable energy that has resulted in a misleading public view of the situation in the RES industry. To change this view,

the transparency and availability of information on the development of RES projects in Latvia will be promoted in the future, specifically focusing on the transparency of the renewable energy support mechanism;

- energy consumers are currently forced to cover the high costs of those energy producers which had previously been granted the right to sell electricity at a price which exceeded the market price. Previously such support was granted not only to the power stations using RES, but also to high efficiency co-generation power stations which use fossil energy resources. It is planned to assess the possibility of progressively reducing such commitments in the future, with a view to promoting a fairer and more transparent price setting mechanism.

Market deficiencies

Similarly as in other policy areas in terms of energy policy, any intervention in the market processes is justified when **market deficiencies** are identified, i.e. in the cases when the market fails to ensure the achievement of socially optimal outcomes. The following key deficiencies have currently been identified in the Latvian energy market which hinder the achievement of the defined objectives:

- the charge for GHG emissions has still not been included in the price of a part of energy consumed. Therefore excise tax on energy resources needs to be revised in the context of other tax policies affecting competitiveness (such as payroll tax). Where this instrument is used, it must be ensured that the energy market is not distorted. For instance, the imported natural gas which is used for the production of electricity in Latvia is subject to excise duty which is considerably higher than the electricity tax which is levied on the imported electricity produced in other countries from fossil energy resources (including natural gas);

- it is not uncommon that unreasonable economic actions of energy consumers, especially households, are encountered - selecting a heat production method without taking cost-effective building energy efficiency improving measures, as well as selecting disproportionately large ineffective technology vehicles in situations where they are not necessary. These actions are certainly consumer choices which cannot be either argued or denied. However, all of the referred-to individual choices impact on the overall public benefit in terms of costs as well as environmental pollution. It is possible to change such action by educating consumers as well as through ensuring access to information, pilot projects implemented by State/local governments, and fiscal instruments. At the same time it should be taken into account that change of the public opinions is a long-term process.

In addition to rectifying policy mistakes and market deficiencies, **efficient policy instruments** aimed at promoting industry development should be planned and developed:

- the range of energy tax instruments should include the costs of GHG emissions and energy intensity by adjusting the current energy tax policy to achieve consistency with the carbon intensity and energy intensity of the energy resource;

- reassessment of the State support and policy instruments promoting the use of RES should **be based on the following four principles:**

- **flexibility of energy volume** - the amount of support varies in line with energy volume demanded in the State;

- **reasonable costs** – support costs are commensurate with benefits;

- **response to market signals** – the support system takes into account the development of technologies;
- **technological neutrality** – equal support for different RES and the technologies of using thereof.

A purposeful assessment of recipients of RES support granted up to now and projects thereof must be performed in the context of Latvia's long-term energy objectives. RES technologies are increasingly widely-used and are becoming more competitive; therefore it is planned to refuse from the State-determined RES energy procurement tariff as it has not proved to be a sufficiently effective incentive, rather an incentive promoting only a short term development of RES;

- the State will take several measures in the energy sector with a view to promote the development of the sector:
 - the State and local governments will ensure a role model in the development of energy efficiency projects and the promotion of the use of RES;
 - the State will ensure the initiative for the development of a large energy infrastructure, corresponding to the future –energy market, including regional and urban scale heat insulation measures organised centrally, time-limited State support for sector projects which provides benefit to the wider public, but where the private sector is not sufficiently motivated to make investments, as well as large-scale national energy infrastructure projects;
 - the State will promote the development of such technologies, especially in the field of RES, which are currently non-commercial, however, which have a large potential and for which a wide commercial use is foreseen;
 - the State will implement information campaigns aimed at raising the public awareness and understanding of energy policy and opportunities to gain economic benefit from implementing individual energy projects.

3) Principal conditions for energy sector development

Considering the increasingly wider integration of Latvia into the European and global energy markets, we can count on new regional projects that would only increase Latvia's energy supply security and market liquidity; however, at the same time we should take into account the increased number of factors influencing Latvia in the wider market. Therefore, the Strategy 2030 provides for a flexible national and regional energy sector policy, promoting their interaction and supporting flexibility, so that if any of the regional scale projects, which is not quite confident at the moment, is or, on the contrary, is not implemented, the Strategy 2030 would not lose its meaning and would still be able to efficiently determine directions of energy sector development.

Bearing in mind the comparatively small scale of the energy market in Latvia and the entire region, not only the efficient acquisition of EU funds and support is to be planned, but also the formation of a national scale energy financial instrument, which would combine loans with an effective grant scheme and providing within the framework thereof the support for the development of RES, especially for research and development (R&D) projects, energy efficiency projects such as heat insulation of buildings, as well as the support for key national scale energy infrastructure projects. Such instrument could be introduced by the single development financial institution within the framework of newly established Development

Financial Institution, envisaged to be established by the end of 2013, by merging the Latvian Guarantee Agency, the Latvian Mortgage and Land Bank and the Rural Development Fund. A single development financial institution would ensure a sustainable, systematic and easy to administer business financial support delivery mechanism, providing support for a full business cycle and market situation. When defining support instruments of the national level in the field of RES and energy efficiency, the possibility that the harmonisation and equalisation of the national support instruments of the Member States would be performed at the EU level in the future should be taken into account.

When solving **energy supply security issues**, security aspects should be carefully evaluated on the national and regional scale. On the national scale, the rapid development of micro-generation needs be considered, which would require greater attention to network supervision and the planning of its functioning with a view to efficiently integrating the energy produced in the micro-generation process into the network. Conversely, on the regional scale it is essential to take into account regional challenges, EU goals, and the energy policy of neighbouring states. The Strategy 2030 lays down several preconditions and commitments regarding directions of activities and measures to ensure access to efficient energy resource markets, stable and justified energy prices, as well as secure national and regional energy infrastructure in a long-term.

1) *To ensure a flexible and secure energy supply network on the national scale*, considering the ever-increasing expansion of micro-generation and the resulting changes in Latvia's energy portfolio. Energy generated in the decentralised micro-generation process can be efficiently integrated in the network only on the condition that energy supply networks are carefully monitored, their operation and development are analysed and planned, and an efficient balancing of network capacities is ensured;

2) *To provide support for key national scale energy infrastructure projects within the framework of the national scale energy financial instrument*;

3) *To develop capacity for the assessment of the impact of energy policy*, by fully covering the direct and indirect costs of energy policy to consumers and benefits for the economy in general, including alternative costs and local pollution;

4) *To ensure national scale social support in the energy sector*, through, among other things, implementing social support measures for consumers of a certain status to prevent energy poverty and ensure the availability of energy at appropriate and affordable price to any resident of Latvia;

5) *To ensure the liberalisation of the energy market by facilitating the entry of new participants to the market*, by promoting the diversification of energy supply sources and channels on the regional scale, and raising public awareness regarding its benefits and obligations in an open and efficient energy market;

6) *To continue close cooperation with regional partners within the framework of the Baltic Energy Market Interconnection Plan (BEMIP) and Connecting Europe Facility (CEF)*, based on solidarity and mutual financial support principles, and balancing national and regional interests for mutually beneficial solutions (e.g. the development of natural gas supply and storage infrastructure);

7) *To continue the integration of the Scandinavian and the Baltic States electricity market within the framework of the exchange NordPool Spot*, including trading in futures financial

instruments, by establishing a single price region area and developing economically-justified regional interconnections, reducing rapid electricity price fluctuations, increasing market liquidity, and indicating signals for the development of new capacities, including RES;

8) *To establish an efficient and open regional natural gas market*, by transposing the EU third energy package, including a full unbundling of the transmission system operator, and to support the diversification solutions of the Baltic region natural gas supplies, including the development of the regional liquefied natural gas terminal, natural gas interconnections between Poland and Lithuania and between Finland and Estonia, as well as by increasing the capacities of regional natural gas depository;

9) *To develop market preconditions for only economically justified regional low carbon base load capacity projects*, refusing from the direct State support for new base load projects;

10) *To improve the safety of fuel supply, by perfecting the functioning of the central stockholding entity (CSE) with more efficient response mechanisms in the crisis situation*;

11) *To facilitate the potential of the extraction of local energy resources*, including peat extraction and the further research of shale gas and oil potential, as well as *to adopt an appropriate regulatory framework for the strengthening of the investment environment of the research and extraction of hydrocarbons*.

It is equally as important to plan for **increasing energy efficiency**, which is a national priority under the Strategy 2030. Low energy efficiency level poses energy security, sustainability and competitiveness risks; however, increasing the level is the fastest and most cost-efficient way of mitigating risks, in parallel creating new jobs and fostering growth. There is a significant market failure in ensuring energy efficiency, especially in the building and transport sectors. To prevent this and promote energy efficiency in all sectors, the following preconditions have been laid down in the Strategy 2030:

12) *To establish, shortly, considerably higher cost-efficient classes of mandatory construction standards for the thermal stability of new and renovated buildings, as well as voluntary classes, including zero energy consumption buildings*;

13) *To promote an intensive support programme for the increased energy efficiency of the current housing fund and public buildings with the help of the energy financial mechanisms of the national scale provided by newly established Development Financial Institution, specifically in the multi-apartment sector, where greater return is expected from such support mechanisms*;

14) *To promote the introduction of smart meters*, by raising consumer awareness of their energy consumption and creating the option to control and decrease the quantity of consumed energy resources;

15) *To set more rigid requirements for centralised heat supply systems in respect of the reduction of energy loss in networks, thereby reducing the benchmark of loss to 10% in 2030*; bearing in mind that the production of thermal energy accounts for the highest final energy consumption of energy resources;

16) *To incentivise the connection of new consumers to efficient centralised heat supply systems*, including by limiting the installation of low expedience fossil autonomous heating plants where centralised heat supply is available;

17) With a view to promoting energy efficiency measures and their availability for energy users *to require providers of thermal energy to allocate 1.5% of their annual turnover to the provision of energy maintenance services;*

18) To promote the improvement of energy efficiency of small and medium companies *by introducing the energy audit and energy management system.* It is essential that the role of industry associations is made more active by triggering a discussion regarding the determination of energy consumption benchmarks in the industry. *Similarly, in order to promote the introduction of measures for the increased energy efficiency in companies, it is planned to implement state support for energy audits in the industry in the mid-term;*

19) With a view to raising the popularity of energy efficiency measures among the society and ensuring greater energy savings in the public sector, *to foster the wider introduction of the "green procurement" principle,* which will contribute to saving energy resources by performing an analysis of the life cycle of goods and services and minimising environmental impact;

20) *To promote the model role of the public sector in the performance of energy efficiency measures in transport, building and thermal supply sectors,* by facilitating pilot projects, public sharing of information thereon, among other things, regarding opportunities to attract public and private project financing.

With a view to reducing energy resource (e.g. fossil fuel, natural gas) import and promoting the development of local energy production, the Strategy 2030 has great focus on **fostering the use of RES** in the electricity and heat energy production and transport sector. Latvia aims to reach the proportion of **40%** of energy generated from renewable energy sources in energy gross end-use by 2020.

By implementing technologically-neutral support based on market principles and securing an appropriate tax and emissions trading policy, the **50%** RES threshold could be achieved in energy gross end-use by 2030, with regard to the following preconditions:

21) Considering the national and EU-scale RES goals and the fact that Latvia is currently widely using fossil energy resources for the generation of heat energy, to apply state support exception for the achievement of the particular objective in the mid-term (until 2020), and *to secure direct high intensity support in centralised heat supply systems* for the transfer to RES;

22) *To provide support for the development of RES within the framework of the national scale energy financial instrument,* especially in research and development (R&D) projects, technology transfers, and the establishment of their production basis;

23) *To introduce requirements and support mechanisms for the promotion of the use of RES technologies in new and renovated buildings,* with a view to facilitating the integration of new RES systems in centralised heat supply systems;

24) *To develop efficient and transparent regulation for the development of onshore and offshore wind energy,* providing for particular conditions for the research, construction and operation of wind farms. Such regulation will facilitate the supervision of wind energy on the national scale, and ensure a clearly defined investment environment for potential developers of this energy;

- 25) *To promote the wider use of RES in public transport, among other things, by implementing the further electrification of railway transport and performing modifications of public transport to use biofuels;*
- 26) *To refuse direct state support for 1st generation biofuels, retaining the requirement to increase the mandatory addition of biofuels to fossil fuel in the mid-term;*
- 27) *To develop a state support mechanism to facilitate the generation of 2nd generation biofuels;*
- 28) *To ensure the compliance of the use of RES (including biomass and biofuels) with the sustainability criteria and the positive impact of RES on associated industries, through defining a clear regulatory framework and compliance control principles;*
- 29) *To promote transport energy efficiency by revising the tax rates for automobiles and motorcycles, taking into account the achieved progress in the reduction of the quantity of CO2 emissions of passenger cars;*
- 30) *To form a private electric road transport infrastructure, ensuring the introduction of a single charging network standard;*
- 31) *To develop a new electricity production support instrument, taking into account the following principles: the flexibility of energy volume, reasonable costs, reaction to market signals and technological neutrality as well as to improve the certificate of origin system;*
- 32) *To assess the competitiveness risks of energy intensive companies of export industries in terms of mandatory procurement component growth forecasts;*
- 33) *To set the long-term principle for the net metering of low-power electricity production plants in distribution networks with a 12-month payment period;*
- 34) *To promote the use of waste for energy production, which would allow increasing the use of local energy resources and at the same time resolve the waste utilisation problem in the country.*

4) Activities to be done in the nearest future

To achieve the long-term objectives of Latvia's energy policy defined in the Strategy 2030, the Ministry of Economics:

- will transpose the goals and principles defined in the Strategy 2030 into the current and future energy policy laws and regulations and planning documents.
- will pass for approval the new energy policy guidelines for 2014 - 2020.

5) Future outlook

It is essential to recognise that the basic scenario, based on the forecasts under the circumstances of continuing the previously implemented state energy policy, and not performing any significant improvement in the planning of its development, is quite threatening, especially if seen within the context of the development of local production and the achievement of climate objectives. Without improving current energy policy, the use of

RES would not be efficiently incentivised; as a result, the high costs would force the society to choose cheaper energy produced from fossil energy resources. Such scenario would not only significantly restrict the ability of Latvia to facilitate the potential of production of local energy and the use of local energy resources, but would also considerably increase GHG emissions, in the long term causing risks of cost increase.

According to forecasts, if the energy policy development measures defined in the Strategy 2030 are implemented, the cost-effective and environmentally-friendly use of local energy resources will gradually grow, facilitating not only the achievement of GHG climate goals, but also the growth of the Latvian economy. At the same time, the Strategy 2030 is aimed at the efficient integration of the Latvian energy market in the Baltic energy markets and, consequently, the successful integration of the entire region in the energy markets of the Nordic States and the EU.

To achieve the objectives defined in the Strategy 2030, it provides for a flexible approach to the development of all energy sub-sectors and energy projects. From the long-term perspective it is not practically feasible to accurately and in detail forecast the course of the development of energy projects and technologies, or to define cost scenarios at a sufficient credibility level, therefore the Strategy 2030 strives to highlight the key steps and preconditions that could promote the implementation of the defined objectives. Failure to implement individual policy initiatives or energy projects, or the delayed implementation thereof, would safeguard the consistently significant role of the Strategy 2030 in energy policy planning, because the integrated approach employed in the Strategy 2030 for the solution of issues secures the capacity of absorbing any possible future policy mistakes or market failures. This flexible approach is unique in the current history of Latvia's energy policy planning, and provides an innovative vision of the desired development of the energy market of Latvia - as a national market, regional partner, and Member State of the EU.

It should also be recognised that successful planning in the energy sector requires an even more far-reaching vision regarding its potential development. Therefore, to safeguard Latvia's interests in the discussions regarding EU-scale energy policy initiatives successfully and reasonably, work aimed at transposing the objectives and fundamental principles of the Strategy 2030 into Latvia's position on the EU Energy Roadmap 2050 on the emission reduction in energy sector should be started immediately.

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