



1st of August, 2018

The FICIL's Position Regarding Cancellation of Mandatory Procurement Component (OIK)

The Foreign Investors' Council in Latvia (FICIL) appreciates the efforts made by all the parties involved in the work group, especially highlighting the efforts of the Ministry of Economics. First of all, we appreciate that the Ministry of Economics understands the Latvian society's ability to pay for renewable energy. Secondly, FICIL fully supports the proposal to reduce the society's costs of promoting renewable energy production to 0.3% of GDP. And thirdly, FICIL is delighted to see that there is an understanding that in order to ensure the competitiveness of Latvian based energy-intensive businesses in the European market, the Latvian energy market should guarantee competitive electricity prices.

The OIK reforms are being carried out before the National Energy and Climate Plan (NECP) 2021-2030. Therefore, it is not possible to define clear goals of the OIK reform for the society. Due to the lack of NECP, the working group report lacks a vision of how OIK reforms will affect further processes in Latvian energy policy. The FICIL invites the Ministry of Economics to review the reforms in line with the NECP, as well as include in the future energy policy planning sectoral problem-solving solutions with clear and understandable impact on the energy sector.

Regarding the work group's report "On Options for the Compulsory Procurement Mechanism and Sustainable Renewable Energy Production," the FICIL particularly wishes to emphasize that the report does not clearly distinguish renewable energy produced from electricity made by fossil natural resources. More than 50% of the payments in the MPC system go to net CO2 emitting fossil production. Subsidizing fossil production is a distortion of market that does not support the national RES (renewable energy sources) targets.

The FICIL believes that, along with the reform of the OIK, a tax reform must be implemented. FICIL suggests the introduction of the "polluters pay" principle recognized by international environmental law where the producer pays the costs of environmental pollution. The introduction of this principle would promote the use of renewable energy resources in Latvia.

The FICIL does not support the reintroduction of the Subsidized Electricity Tax (SEN) or introduction of a new similar tax. According to the proposal the former SEN rate of 5% is expected to increase to 15% from 2019 to 2020, that is an increase of 10% meaning a significant impact in electricity prices for consumers.

In order to decide on one or the other future model in Latvia ("green certificates", feed-in premium), FICIL insists that it is necessary to have an in-depth analysis of how these systems will work, what will be the impact on economy, what the risks are and how to control them.

The FICIL understands that an overcompensation has happened when the transition from historical support to the existing mandatory procurement mechanism took place. The FICIL believes that the Government should provide a publicly available method of calculation that shows how the fact of overcompensation could be detected and prevented.

The FICIL does not support the introduction of the Capacity Payment Reform as it is currently in the report. The action plan as proposed does not comply with the essence of good governance principles. Reform should be a tool for improving the effectiveness of the governance. According to the current plan, the reform looks like the transfer of payments from the OIK to the electricity transmission system, rather than full-fledged reform that would benefit the entire society.