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Position Paper on Waste Management and Energy Sector Policy

1. Executive Summary

FICIL represents both users of the waste and energy sector services as well as investors and companies that operate in these industries.

Although in recent years there have been positive developments in both waste and energy sector regulation and policy there are still a number of challenges that FICIL wants to draw the Government of Latvia's attention to.

What concerns the waste management policy there are still open opportunities to further implement circular economy principles, viewing waste as a resource and promoting open, transparent and competitive waste management market. In order to fulfil EU objectives and reach national targets FICIL recommends the following actions:

- 1) Promote circular economy enabled by recycling and energy recovery
- 2) Prevent the creating of monopoly for waste management in Riga

Efficient, sustainable and reliable energy is essential for development. FICIL has identified the following recommendations in connection with energy policy:

- 1) Acknowledge the urgency of the drafting the integrated national energy and climate plan
- 2) Promote competition and cost efficiency in the Renewable Energy Policy
- 3) Ensure that support schemes balance development objectives with burden on consumers
- 4) Review of Latvenergo's fossile CHP support
- 5) Evolving the role of the regulator

2. Recommendations on waste management policy

2.1. Promote circular economy enabled by recycling and energy recovery

Efficient and sustainable waste management solutions are capital intense, high tech and complex undertakings. Investors therefore need long-term, predictable and development-supportive legislative framework. Therefore, is proposed to:

- Decisively and actively close the possibility of continuing to landfill materials that

can be recycled or re-used for energy recovery.

- Effectuate ban from EU Directive on bio-degradable material flows to landfill.
- Promote energy efficiency through recovery of energy from waste and Refuse Derived Fuels (RDF).
- Enforce existing extended producer responsibility legislation, ensuring transparency in recovery organizations reporting system and implementing control mechanism to ensure their responsibility for achieving country targets and launch further recycling promoting policies.

2.2 Prevent the creating of monopoly for waste management in Riga

FICIL expresses its concerns regarding the model of waste processing proposed by the Riga City Municipality. According to the proposed model, instead of four operators currently working in Riga city, a public private partnership (PPP) will be established by the municipality and a selected private partner with a contract for 20 years.

This is a significant threat to the customer's rights and to the competition in Latvia's waste processing market, and would also exclude foreign investments in the industry with new technologies and solutions.

FICIL fully supports the concerns expressed by the Latvian Competition Council and its conclusion, based on the extensive waste market study, that instead of actual monopoly it is possible to allow several waste processing companies to operate in parallel. FICIL supports the suggestion by the Competition Council that Riga City municipality repeatedly evaluates the proposed waste processing model and necessity to establish PPP also from the competition perspective.

3. Recommendations on energy policy

3.1 Acknowledge the urgency of the drafting the integrated national energy and climate plan

Under the proposal for the regulation on the governance of the Energy Union, each Member State will have to prepare an integrated national energy and climate plan to describe national objectives, targets and contributions for each of the five dimensions of the Energy Union, and methodologies and policy measures for their attainment. The first plan shall cover years 2021 to 2030. Each subsequent plan shall also cover a period of 10 years. By January 1, 2018, Commission should receive draft integrated plans, but finalized plans by January 1, 2019.

FICIL urges government to commence drafting of the integrated plan as this would allow to have a proper dialogue with the relevant industry stakeholders thus benefiting from their know-how and contributing to the stable and predictable energy policy.

3.2 Promote competition and cost efficiency in the Renewable Energy Policy

According to the Electricity Market Law new criteria to develop renewable energy production shall be prepared by the Cabinet of Ministers by the 1st of January 2018. The most cost efficient way to develop renewable energy in Latvia is to outline the new regulation emphasizing the importance of competition, proper long-term planning, right and precise conditions, regional cooperation and transparency.

The following main principles are recommended:

- Qualification for state aid to be done through competitive technology neutral auctions, with selection amongst projects through lowest 10 year feed in premium.
- CO2 taxation in non-ETS sector shall be established, allowing transition time of 3 to 5 years, starting “polluter pays” principle.
- Support decarbonisation of the transport sector thus ensuring competitiveness of, and reasonable demand for biofuels based on the genuine competition among biofuel producers and suppliers.

3.3 Ensure that support schemes balance development objectives with burden on consumers

When designing new system of state aid for the renewable energy after 2020 following considerations shall be taken into account:

- Impact on households and industry as well as competitiveness of the end-user energy prices in the region
- Supported renewable energy production should be competitive in free market conditions after state aid expiry
- Latvia’s renewable energy targets should not be too ambitious and go beyond EU target’s, as well as Latvia should be realistic in discussions about 2030 EU targets (and their split among various sectors)
- Eliminate multiple source support (guaranteed energy procurement price and one or several sources of EU funding)

3.4 Review of Latvenergo fossile CHP support

FICIL supports current audit on support levels under which Latvenergo is being investigated. Latvenergo company, as a sound player in market, shall be released from its current social functions, support level shall be reduced to reasonable level to pay loans (only related to CCGT plants) and have a reasonable profit. Cross financing should be discontinued.

- The impact of support to large gas fired CHP’s on energy prices should be analyzed,
- The possibilities to renegotiate conditions of the loan taken to fund TEC-2 construction should be reviewed to lessen the burden on electricity payers
- Gradually decrease support for Latvenergo CHP.

3.5 Evolving the role of the regulator

FICIL supports the new progressive management of the regulatory body, who have showed initiative towards the path of renewing and adapting the role of the regulator. The restructuring process is challenging but absolutely necessary. FICIL finds it imperative that stakeholders show support to the progressive changes being launched.

In addition, strengthening the regulator, in particular vis-à-vis its role in the newly established and developing natural gas market in Latvia, would effectively ensure creation and successful evolution of the local and regional gas markets, as well as security of supply. Thus, a strong and pro-active regulator in conjunction with certain specific rights vested into the government through the Energy Law and National Security Law would allow the State to avoid unnecessary direct investments into the unified natural gas transmission and storage system operator.

FICIL strongly recommends that the regulatory body pays more in-depth analysis to the competition law and state aid law aspects within the regulated sectors, fully integrates and

respects these aspects in their daily work, and continuously improve their knowledge and professional skills on the specifics of the joint and simultaneous application of the regulatory, competition and state aid law.