

Alignment Beyond Instruments: Governing Transitions in Interconnected Systems

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Perspective on Policy Alignment

- We should look beyond whether policies and regulations look similar on paper
 - Assess alignment through the lens of governance and decision making, not individual policy instruments
- >> Then, alignment becomes more about **functional equivalence** and **coordination of outcomes** than about having the same instruments or institutions in place

Functional equivalence: Well-documented in comparative law studies. Explains why countries are able to obtain similar outcomes even when adopting different rules.

The Advisory Board's key recommendations on Climate & Energy Governance Towards EU climate neutrality

Towards EU climate neutrality
Progress, policy gaps and opportunities

Assessment Report 2024



Now or well before 2030

By 2031 at the latest

Towards
a 55% net
reduction
by 2030

- Implement Fit for 55 fully and swiftly
- Conclude revision of the Energy Taxation Directive and other European Green Deal initiatives
- Provide **stable investment outlook for renewables**
- Phase out fossil fuel subsidies**

Towards
net zero
by 2050

- Align EU policies with a phase-out of fossil fuels (by 2040 for public electricity and heat generation)
- Assess and address socio-economic impacts of climate policies
- Align the common agricultural policy with climate objectives
- Target deployment of carbon capture and utilisation or storage, hydrogen, and bioenergy towards activities with no or limited alternatives
- Support **public and private climate investments**

- Strengthen governance and compliance frameworks
- Make EU **emissions trading systems fit for net zero**
- Address energy and material demand
- Expand emissions pricing to all major sectors (especially agriculture/food and LULUCF) and incentivize carbon removals

Need: **Deployment of renewables need to accelerate significantly** (solar by x4, wind by x2)

Function: Provide **stable investment outlooks** for renewable energy & ensure efficient market functioning

Diversity of instruments supports competitive market – best practices and coordination provide value
>> **Electricity Market Regulation / RFNBO rules / ACER-Ofgem cooperation**

Need: **Climate investments need to increase by at least x4**

Function: Better drive the required **increase in public and private investments** in climate mitigation

Who is allowed to act ahead of the market (strategic planning, anticipatory investments)?
How is responsibility distributed between institutions, governments, regulators and TSOs?
>> **EU grid package / TYNDP process**

Need: **Broad, functioning Emissions Trading System post 2031**

Function: Make the two **emission trading systems** fit for net zero (clarity on functioning when **cap** for stationary installations will go to zero (2039))

Expand GHG pricing to all major sectors and provide **incentives for carbon removals**

Converge carbon prices in different systems over time to improve cost-effectiveness and avoid distortions)

Carbon pricing (EU ETS vs UK ETS) – differences in caps and price levels, but both broad carbon cost internalisation, development in scope, reforms needed. What would the costs and benefits be of linking the two systems?
>> **Co-development of long-term (post 2031) framework**

Policy alignment questions to ask

Do different governance arrangements produce compatible assumptions about planning, responsibility and risk?

Are the governance structures robust enough for the systems we are building?