

MEMO

To EFTA Surveillance Authority

From CMS Kluge

Date 12 April 2026

Subject **Complaint regarding Norway Price for electricity - The Impact of the Norway Price Scheme on alternatives to electric heating.**

1. INTRODUCTION

Reference is made to our complaint regarding Norway Price for electricity, the Norwegian authorities' submission dated 15 December 2025, and the meeting with ESA on 3 March 2026. In this meeting, we agreed not to comment, at least for now, on the entire submission by the Norwegian authorities, but rather on particular issues.

The present memo pertains to the distortive effect of the Norway Price scheme on alternatives to direct electric heating. It is crucial to understand this impact, as this analysis is directly relevant to assessing whether the scheme distorts price signals, undermines investment incentives, and compromises energy efficiency goals under the "Energy Efficiency First" principle enshrined in the EEA framework.

2. HEAT PUMP SALES IN NORWAY

Sales of residential heat pumps slowed markedly immediately following the announcement of the Norway Price scheme on 31 January 2025, at a press conference held by Prime Minister Støre and Minister Aasland. Importantly, no further decline in sales was observed when the scheme was formally implemented in October. This pattern provides empirical evidence that households' willingness to invest in energy measures depends not only on current electricity prices, but to a large extent on expectations regarding future price levels. When households are led to expect persistently low, subsidised electricity prices — signalled directly by the government's top leadership — the perceived economic return on investments such as heat pumps diminishes, resulting in a direct market contraction. One notable exception is the third quarter, which typically stands out due to increased installations of air-to-air heat pumps primarily intended for cooling purposes. This segment of the market is largely insensitive to developments in electricity prices, as demand is primarily driven by comfort needs during hot summer periods.

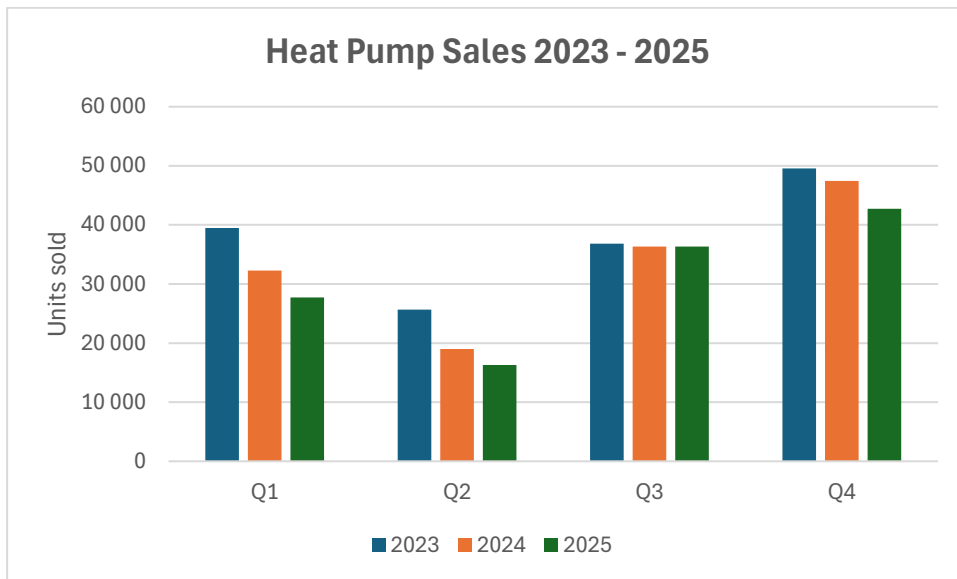


Figure 1. Heat Pump Sales per quarter (Prognosesenteret)

Over time, we have observed a clear and consistent relationship between electricity prices and sales of air-to-air heat pumps. The electricity price represents a national average for Norway, including the wholesale power price, grid charges, and taxes, while also accounting for the household electricity support scheme and the Norway Price. Periods of high electricity prices have generally coincided with increased sales, reflecting households' incentives to invest in technologies that reduce electricity consumption for heating. However, sales are not determined solely by current electricity prices; they are also strongly influenced by expectations about future price developments, which are inherently more difficult to measure. Although electricity prices in 2025 were broadly comparable to those in 2024, the introduction of the Norway Price scheme led households to anticipate persistently low, subsidised electricity prices going forward. This reduced the perceived economic benefit of investing in air-to-air heat pumps and thereby dampened investment demand.

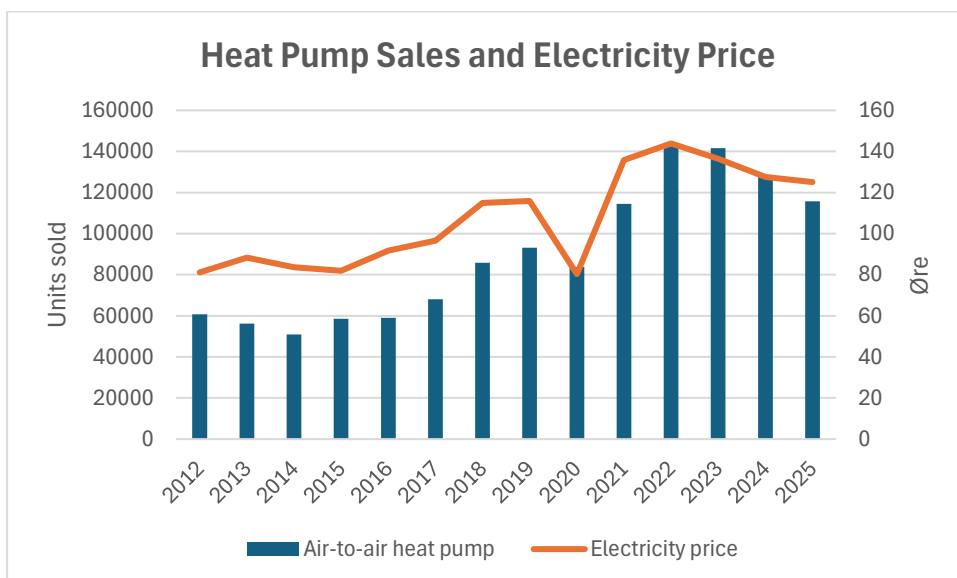


Figure 2. Air to-air heat pump sales and electricity prices (Prognosesenteret and SSB)

A further indication of this policy-driven distortion is the contrasting development between households and the commercial sector. While sales of heat pumps to households declined by around 10 percent, sales to commercial and non-residential buildings increased by approximately 14 percent over the same period. This striking divergence provides clear evidence of market distortion: whereas the commercial

sector — exposed to actual market prices — has increased its investments to reduce energy costs, residential demand has declined due to the price-dampening effect of the Norway Price scheme on households.

Moreover, the Norwegian development stands in clear contrast to trends in neighbouring Nordic countries, where heat-pump sales grow in 2025—by around 10 percent in Finland, 20 percent in Sweden, and 30 percent in Denmark. These developments confirm that the slowdown in the Norwegian household market is not explained by broader regional or technological factors but is instead closely linked to policy-driven price expectations created by the introduction of the Norway Price scheme.

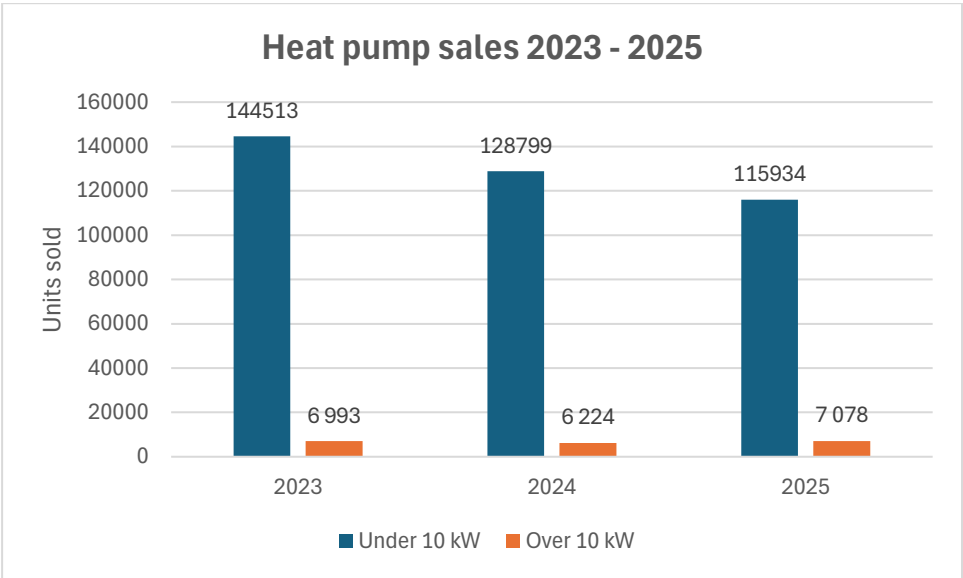


Figure 3. Heat pump sales to households and commercial buildings (Prognosesenteret)

3. WOOD STOVE SALES IN NORWAY

Sales of wood stoves declined in every quarter of 2025. As with heat pumps, the decisive turning point for the market was the press conference held by Minister Aasland and Prime Minister Støre on 31 January 2025, rather than the formal introduction of the Norway Price scheme on 1 October 2025. Expectations of persistently low, subsidised electricity prices reduce the economic incentive for alternative heating investments. It is also worth noting that the decline in 2025 followed an already weak year in 2024 for sales of wood stoves. The pre-existing electricity support scheme had already exerted a dampening effect on the wood stove market by shielding consumers from full market signals.



Figure 4. Wood stove sales (Prognosesenteret)

4. WOOD SALES IN NORWAY

Research identifies high electricity prices as the primary catalyst for substitution of electricity with wood firing. According to the THEMA report¹, 80% of households that changed their energy habits between 2021 and 2023 cited higher electricity prices as their main motivation. This price sensitivity led to a measurable 1.1 TWh increase in wood consumption across Norwegian households between 2020 and 2022, representing a 10% increase in 2021 followed by another 6% in 2022. Specifically, 36% of surveyed consumers reported using wood stoves instead of electric heaters as a deliberate measure to manage their energy costs during the recent energy crisis.

Furthermore, scientific simulations and field measurements indicate that the potential for electricity savings is substantial; active wood stove usage can reduce the electrical energy demand for space heating by up to 32%². This demand-side response is most effective during peak hours (08:00 and 17:00), where wood stoves have been shown to reduce electric power demand by as much as 10 W/m² at an outdoor temperature of -10°C.

To accurately assess the extent to which wood-burning functions as a direct substitute for electric heating, it is essential to rely on temperature-corrected electricity consumption data. Because space heating constitutes the dominant energy load in Norwegian households and is primarily driven by outdoor temperatures, unadjusted consumption figures are strongly influenced by weather variability.

Without temperature correction, the underlying behavioural response of households is obscured: a mild winter may be misinterpreted as improved energy efficiency, while a cold period can conceal substantial shifts toward alternative heating sources. Temperature-corrected data instead reveal that households actively engage in fuel switching — particularly from electricity to wood-based heating — thereby providing essential demand relief to the power system during periods of peak load and extreme cold.

These results underscore that wood burning is a highly price-responsive asset that provides essential flexibility to the power system. By eliminating exposure to market prices, the Norway Price scheme effectively reduces the rationale for households to provide this flexibility.

¹ Hva skjedde i 2021-2023?, THEMA 2023

² Wood burning habits and its effect on the electrical energy demand of a retrofitted Norwegian detached house, 2019

5. SALES OF SOLAR PANELS FOR HOUSEHOLDS

Norway lags well behind other Nordic countries and much of Europe when it comes to the deployment of residential solar panels. This market has experienced a catastrophic decline in demand. In 2024, demand for household solar installations fell by approximately 80 percent compounded by an electricity support scheme that weakened local energy production. The solar industry was already in deep distress when the Norway Price scheme was introduced, and the announcement effectively caused a total collapse of the residential solar market. As a result, 2025 was marked by a wave of bankruptcies among suppliers targeting the household segment, including the collapse of Solcellespesialisten, Norway’s largest residential solar company. These developments indicate that policy-driven expectations of persistently low electricity prices have severely undermined investment incentives for household solar energy, pushing an already fragile market into crisis. The number of new prosumers per month serves as a stark indicator of this policy-induced market collapse. The number of new prosumers per month is a strong indicator of solar panel installations.

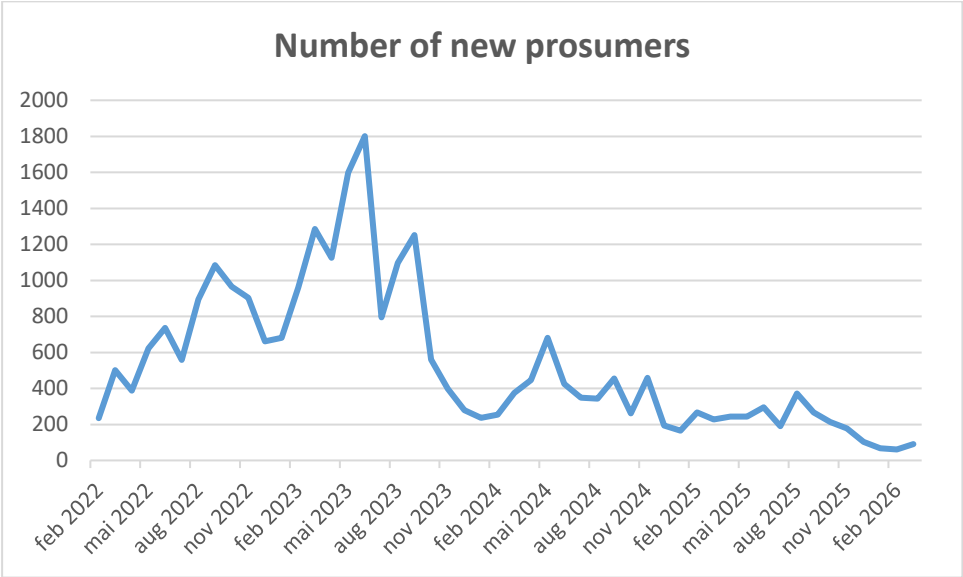


Figure 5. Number of new prosumers (NVE)

6. CONCLUSIONS

In summary, the Norway Price scheme fundamentally distorts market signals by creating long-term expectations of subsidized, low electricity prices. This policy shift has triggered a structural contraction in household investments for energy-efficient technologies, most notably in heat pump and wood stove sales, a trend that stands in sharp contrast to the growth observed in neighbouring Nordic markets. The impact is most severe in the residential solar sector, which has experienced a complete market collapse leading to major bankruptcies. By eroding the economic rationale for energy efficiency and decentralized production, the scheme directly contradicts the EEA's fundamental objectives of maintaining competitive and efficient energy markets.
