

RESPONSE TO THE CEER PUBLIC CONSULTATION
ON
“IMPLICATIONS OF NON-HARMONISED RENEWABLE SUPPORT SCHEMES”

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The Council of European Energy Regulators (CEER) launched in November 2011 a public consultation document which examines the **Implications of Non-harmonised Renewable Support Schemes**. It addresses the existing differences between national support schemes in Europe and other areas of non-harmonisation in electricity markets. The paper consults on the impact these differences may have on investment decisions and on the functioning of national and European wholesale electricity markets by addressing four key questions.

EUROPEX welcomes the opportunity to take part in this consultation and here below you will find our response to the four addressed questions:

Question 1:

How significant do you consider the impacts of non-harmonisation of support schemes to be for the development of RES and RES technologies?

Europex considers support schemes to be highly relevant for the development of RES as choice of support schemes does not only determine the resulting generation structure but also the degree of cost-efficiency at which RES targets are achieved. European countries possess diversified local geographical and climatical resources with a huge potential for efficient generation of RES. As of today, this potential remains widely unused as result of a non-harmonisation of support schemes in place.

We support the view outlined in the consultation document that support schemes have a decisive impact on investment decisions. The non-harmonisation of support schemes tends to lead to investments in RES towards those locations where promotion policies are most favourable, rather than to those where RES might be exploited most efficiently. Figure 5 in the provided consultation document is an impressive illustration of this argument; most notably as it shows that Germany is by far the largest producer of solar power in Europe.

In addition to that, we consider the complexity caused by the non-harmonisation of support schemes to be a major obstacle for an efficient and successful expansion of RES technologies. The fact that each European country applies its own support scheme limits the investors' ability to

make optimal investment decisions. This may lead to less investment in RES than possible under harmonized rules.

In addition to a negative impact on cost-efficiency, non-harmonisation of RES support schemes has distorting market effects and contradicts the goal of a single European electricity market. Mechanisms like market coupling and market integration have proven to work well and significantly support the integration of fluctuating RES generation into markets and the energy system. However, the support schemes in the connected markets differ from each other, resulting in a high complexity for market participants. Besides that, subsidies paid by consumers in one country may actually benefit consumers and generators in other countries. For instance, subsidised German wind power might be used for power generation in Austrian and Swiss pump storage facilities.

Hence, the impact of non-harmonised support schemes on investment decisions and markets is significant. By contrast, a Europe-wide market-based support scheme could provide for an efficient use of consumers' resources by efficiently exploiting Europe's diversity of RES-resources. Moreover, harmonised support schemes would optimize allocation of costs and benefits among European customers. Therefore, given the EU's overall objectives of completing the internal energy market by 2014 and envisaging almost full decarbonisation by 2050, a harmonised RES support scheme should be a central element for achieving those targets.

Question 2:

In comparison, how significant do you consider the impacts of non-harmonisation of factors other than support schemes, explored in this report (or in addition to those explored) to be for the development of RES and RES technologies?

The factors other than support schemes that were mentioned in the consultation document (local terrain, ancillary services, subsidies for other technologies etc.) are certainly relevant for the development of RES, however, when directly compared to support schemes, the latter still play the more crucial role from our point of view. It is true that most of the other factors mentioned in the consultation document have an impact on the investment decisions or on the ease of doing business, but rather as side effects. Hence, we think the non-harmonisation of most of these factors has not such severe consequences as in the case of support schemes. In fact, some of the mentioned factors can hardly be harmonised, such as social acceptance for RES, or not at all, such as local conditions.

However, the non-harmonisation of factors within the wholesale electricity market arrangements (balancing regimes and gate closure times) certainly play an important role. These factors tackle the question of who has to assume what kind of risk to which extent. Thus, they influence the business models of generation facilities. If electricity generators need to bear the costs of balancing this may lead to high risks for RES-generators. Hence, the balancing regime may influence investment decisions and their non-harmonisation may result in an inefficient allocation of resources, thus, we favour a harmonization of balancing regimes. Other factors mentioned in the consultation document, such as social acceptance or the provision of ancillary services, are less important and do not need to be addressed primarily.

Question 3:

Please place the factors of non-harmonisation (whether explored in this report or not) in order of materiality/significance. Please separate non-harmonisation of support schemes into type, level, structure, history and stability of support as explored in the public consultation document (Table 1). Please rank the five factors mentioned below in order of their importance, starting with 1 i.e. most important and ending with 5 i.e. the least important.

2. Type of support (price-based scheme, quota-based scheme)
4. Level of support (high amount of support provided, low amount of support provided)
5. Support provision structure (fixed rate over time, variable rate over time)
3. History of support (long-term, short term)
1. Support scheme stability (perception of stability, perception of instability)

Comments:

We ranked the support scheme factors according to its impact on efficient investment decisions in RES-generation facilities. In addition to the consultation document, we had a look at the EU Commission's progress report on the member countries' progress on their renewable goals. According to these data, we come to the conclusion that it is not only level of support that counts. However, differing investment decisions and differing market conditions lead to distortions within European electricity markets.

- *It is our belief that the stability of the support schemes is of the highest importance for the development of RES as we consider it of the highest importance for investment decisions. However, stability may not be misunderstood as rigidity but rather as a reliable investment environment and transparent decision processes. We believe without stability, reliability and transparency other factors of support schemes will prove less effective in promoting RES. However, a particularly high level of the support scheme might compensate investors for a lack of stability at high cost. Stability, reliability and transparency may be obtained also on a European level and is not a question of money.*
- *The type of support has implications on the distribution of risk to market players. In most FIT systems, RES generators do not need to take any price risk or market risk. In systems with TGCs and FIPs RES-generators are exposed to some kind of market risk. Admittedly, FIT seems to be able to promote investments effectively but may lead to distortions between countries applying different systems.*
- *However, it is our belief that market – oriented support schemes, i.e. TGCs in particular, are most capable to provide incentives for efficient and rational use of resources, especially when applied in a harmonised and pan European scale. Recent academic comparative review analyses of the (not harmonised) promotion strategies might still favour FIT above TGC but obviously do not consider that the real potential of market based mechanisms can only be deployed in full with an adequate market size. In addition to that, market signals certainly would contribute to the entire transparency within the electricity system.*
- *The level of support definitely is important as an incentive for investing in RES. Certainly; high levels of support tend to attract investment more easily than lower levels. Still we think that other factors, in particular stability, need to be in place for promoting RES.*
- *As outlined in question 2, we consider the balancing regime highly relevant for the investment decisions*

Question 4:

In your view, does this consultation document capture all major implications of non-harmonisation of support schemes? Are there any additional impacts on investment decisions, market functioning or any other areas you consider relevant?

From our point of view, the consultation document indeed captures the majority and the most important implications of non-harmonised RES-support schemes. However, we would like to make some additional remarks and highlight some points.

- *National RES-support schemes contradict the European Commission's goal of a single European energy market as they deepen the differences between European markets.*
- *The growing number of countries applying FIT might lead to more and more countries where an increasing share of electricity production does not respond to market signals. The remaining share of the electricity supply becomes smaller and may be dominated by a few utilities more easily. This seems more probable to occur on national level than on European level given the bigger size of the latter and its more diversified structure. Market based RES-support schemes may be able to prevent that the share of the electricity market that responds to market forces becomes smaller and smaller.*
- *Inefficiency caused by differing support schemes and the danger of market distortions in the future are likely to lead to ever increasing costs for supporting RES. In the long term, the high costs might endanger public support for the promoting RES.*
- *Non-harmonised support schemes ignore the fact that electric energy is exchanged between European countries. Grids paid by one country may be congested by the electricity generated by another country.*
- *Non-harmonised support schemes ignore the fact that efficient low carbon electricity generation is a public good; hence its positive or negative implications cannot exclusively be allocated to those who pay for it. Physical cross border flows might lead to the following situation: Subsidised electrical energy might lead to decreasing prices in another country. Or electricity from fluctuating energy sources such as wind may congest the grid in another country, leading to negative effects there.*