

## Response to DG Energy Consultation “Renewable Energy Strategy”

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**A.1. Is there a role for new targets for renewable energy sources post-2020 assuming that any targets must be consistent with climate mitigation and energy efficiency policies and targets as is currently the case with the 20/20/20 targets in the Europe 2020 strategy?**

Yes, a combination of EU and sectoral level targets is appropriate.

**A.1.1. Please explain the reasons for your answer (such as the scope and contribution from GHG targets/ETS, the need to address other environmental, security of supply or technological development benefits)**

Considering the ambitious goals for GHG reduction in Europe by 2050 and the important contribution that RES will have to make to achieve this objective, a mandatory target and thus legal commitment to RES deployment is preferable over a pure voluntary approach. Only such a robust political and regulatory framework can ensure that the RES deployment rate actually meets the desired results. That applies for direct GHG targets as well as for indirect sectoral targets such as share of power from renewable sources.

**B.1. Do you consider that financial support will continue to be necessary to support renewables post 2020 given their expected greater penetration?**

For selected technologies/circumstances/markets.

Please specify which technologies/circumstances/markets:

The reason to allocate financial support for specific technologies should – besides accompanying socio economic considerations – clearly be to bridge the learning curve until this technology reaches market maturity, i.e. can compete with other technologies without support (grid parity). If this is in reach, support should be limited and new installations shall operate under market oriented models with underlying (ideally EU

wide quota obligations). Big scale bubbles of macroeconomic suboptimal installations like PV in Germany and Spain should be avoided.

The (EU- wide) allocation of financial support to specific technologies/locations (markets) should follow a ranking of distance from and chances to reach grid parity based on independent scientific research.

**B.2 If renewable energy sources require support post-2020, how do you think this can best be achieved with a view to achieving a cost-effective deployment?**

Making support schemes more market-oriented.

Please specify how to make support schemes more market-oriented:

Europex considers an EU-wide market-based mechanism, namely a tradable green certificate scheme based on national quota, to be the most cost-effective instrument for RES deployment. This is particularly true when RES progresses from a rather small to a more significant share in the EU's energy mix.

Since RES deployment has already reached a decent degree until today, financial support for RES should better take into account Europe's diversified local, geographical and climatical resources. Due to the non-harmonized structure of RES support schemes in Europe, investment patterns in RES have so far rather followed the most favorable promotion policies than those locations which can be exploited most efficiently. Such inefficient allocation of resources would be mitigated significantly by applying an EU-wide market-based mechanism.

**B.3 Do you think it would be useful to develop common approaches as regards Member States' financial support for renewable?**

Yes, with EU-wide benchmark values for support level per technology.

**B.4 Should the structure of financial support be gradually aligned EU-wide?**

Yes.

Please explain how this could be achieved and which support structure you consider most suitable:

Given that the choice and regional scope of support schemes is crucial for the degree of cost-efficiency at which RES target can be achieved, a transition towards a market-based and EU-wide support scheme for renewable seems to be advisable even before 2020. In fact, there should be room for gradually phasing-in such an EU scheme, as national quotas for RES do not necessarily interfere with existing national support schemes: For instance, national quota and a system of tradable green energy could be introduced – in a first step – in parallel to current national support schemes. This could be done by setting national quota at a level above the deployment rate which is expected to come from national support only. This would result in an additional incentive that could be satisfied by a market-based mechanism and thus in a cost-efficient way. In a next step, we suggest a fully harmonized support system on EU level based on national quota with tradable certificates.

**B.5 With regard to questions B.3. and B.4. please specify if you see a difference between the different sectors (electricity, heating and cooling, transport)**

No response.

**B.6. How do you see the relation between support schemes for renewable energy and the requirements of the internal electricity market for the period after 2020 against the background of a rising share of renewables?**

Member States do need to open their support schemes to renewable generation from other Member States.

Please explain how this could be achieved for other Member States (e.g. through convergence of national schemes, compensation mechanisms or other).

With ever increasing shares of RES on the one hand, and still ambitious emission reduction targets for 2050 on the other, Europex strongly believes that it is time for a truly European approach towards RES support. This could be achieved by way of a gradual transition (see our response to question B.4).

This would be without prejudice that individual and national approaches could still be kept in other spheres of RES support, for instance with regard to R&D policies.

Once an EU-wide market mechanism for RES (financial) support is in place, it would of course also make sense to enlarge its scope to third countries. This would permit further efficiency gains, in particular when third countries have specific RES at lower cost-levels than within Europe.

**B.7. Do national support schemes and differences between such schemes distort competition?**

Yes, some support schemes are more distorting than others.

Please specify which you consider most distorting:

Different national support schemes impact on the price formation in each Member State differently: Whereas feed-in tariffs are completely separate from the electricity market and energy producers do not take any price risk, suppliers do respond to price signals in market-based mechanisms such as certificate schemes. Therefore, distorting effects will materialize to varying degrees, depending on which support schemes are applied. This is particularly an issue when it comes to market coupling which involves different market areas with so far different types of support schemes in place.

The fragmentation of national RES support schemes also leads to a high degree of complexity for market participants. In our view, this is another major obstacle for an efficient and successful expansion of RES technologies, as it limits the investors' ability

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

**D.3. With regard to system integration of wind and solar power, what measures do you consider most important to increase the flexibility of the system:**

- Increase availability of demand response (smart grids...);
- Accelerate infrastructure development and interconnection;
- Market-based measures: better use of interconnectors (implicit auctions), trading closer to real time;
- Other (please specify).

Please specify which other measures:

Further explanation to Europex's answer choice:

It is our belief that markets provide for signals that allow the system integration of renewables: Well-functioning markets provide transparent price signals that lead to physical cross border flows from low price to high price areas or from areas with excess electricity production to areas with less available capacity or even scarcity. Consequently, cross border trade, in particular via implicit auctions, already today leads to situations where high electricity production from fluctuating RES is used to compensate less availability in other countries and vice versa.

We believe only well-functioning markets deliver elemental incentives for demand- and supply-driven physical flows. Hence, market integration of RES is a precondition of system integration. By the same token, trading closer to real time facilitates market and system integration of RES as it helps to display the physical reality within the grid as solar and wind production cannot be forecasted with certainty. We believe trading closer to real time helps to integrate RES into the electricity system as well as into the market.

**E.1. In which of the following ways could renewable energy be made responsive to market signals?**

- X Price risk – producers of renewable energy should be obliged to sell their production on the market and aid should be granted exclusively a) premiums or b) investment aid
- X Balancing risk- producers of renewable energy should bear balancing responsibility It towards TSO's (if so, please specify how: responsibility on individual operator ...)

The following explanations are valid for E1, E2 and E3. Market mechanisms should be the central coordination mechanisms of the electric system as they provide important incentives for the system integration of fluctuating RES. In order to preserve market mechanisms, RES need to be integrated into the electricity markets. Therefore, market arrangements are in principle appropriate frameworks for RES, but they need to be further developed. Besides market integration of RES, the creation of new market-based mechanisms might be necessary, e.g. flexible market responses and/or Green Power Certificates.

E 1: In order to integrate RES into electricity markets, RES should bear as many market-specific risks as possible within the electricity markets, including price risk as well as volume risk. Premiums (e.g. as tradable Green Power certificates combined with national quota) should be granted outside of the electricity market in order to avoid market distortions. Balancing risk: RES should contribute to the balancing markets as far as possible. For this purpose, RES-plants, fluctuating RES as well as dispatchable RES, may be pooled as they tend to be small and fluctuating RES-production may be compensated within a pool. Fluctuating RES-capacities have to be adjusted by a technology-specific factor in order to ensure the necessary availability for providing balancing services. Dispatchable RES-plants are able to provide balancing services with fewer limitations.

## **E.2. How can it be ensured that market arrangements reward flexibility?**

- Develop demand response to market signals (please specify, e.g. smart grids, smart meters, demand aggregation, interruptible demand);
- Current market arrangements are sufficient to reward flexibility.

Develop demand response to market signals: please specify, e.g. smart grids, smart meters, demand aggregation, interruptible demand:

As outlined in our response to E.1., we consider market arrangements and market signals as suitable to provide optimal incentives for the use of demand response and storage. The question which technology is most appropriate to meet the demand for flexibility needs to be answered by the market.

## **E.3. In how far do you think today's market design needs to be adapted to provide an appropriate framework for renewables**

The current wholesale market model based on short-run marginal cost pricing is appropriate

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