

To:

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European Commission

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RE: Commentary of the European Federation of Energy Traders (EFET)¹ on the European Commission Communication COM (2012) 271 on renewable energy of 6 June 2012

EFET welcomes the EC Communication “Renewable energy: a major player in the European energy market”². It represents a further step in a European debate about the future of renewable energy sources (RES) in the EU and, in particular, how to integrate renewable electricity in the internal market for energy (RES-E).

EFET has already contributed to this debate by publishing a new, post-Directive position paper in December 2010³. We also responded to the EC consultation on future, post-2020 support for investment in RES and on post-2020 targets for renewable energy consumption in February 2012⁴, and presented our position on RES-E integration and the management of loop flows at the last Florence Forum on 22/23 May 2012.

EFET believes that the current situation, with a wide range of uncoordinated measures, large volumes of non market based energy, and traditional generation plants increasingly being used as back up generation and facing a larger amount of responsibilities and constraints, is not sustainable and will not deliver the post-2020 EU policy objectives. Differential country-specific renewable support schemes are also damaging the objective of the internal electricity market.

The Commission therefore needs to take a stronger role in coordinating and supervising the compatibility and side effects of renewable support schemes in Member States. It can achieve this through stronger scrutiny of Public Service Obligations imposed by Member States under Article 3 of the Directive 2009/72, through the state aid guidelines for environmental protection, and by ensuring that mutual recognition is not denied directly or indirectly. The EFET response to the

¹ EFET is an industry association which was set up in order to improve the conditions of energy trading in Europe, mainly in electricity and gas markets. Established in 1999, EFET represents today over 100 companies in 27 European countries. EFET works to promote and facilitate European energy trading in an open, transparent market unhindered by national borders. More information at: www.efet.org.

² Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *Renewable Energy: a major player in the European energy market*, COM (2012) 217, June 6th, 2012.

³ EFET position paper, *Effective integration of renewable energy in the European power market*, December 2010, available at: <http://www.efet.org/GetFile.aspx?File=5264>

⁴ EFET response to the European Commission consultation of renewable energy strategy, February 2012, available at: <http://www.efet.org/GetFile.aspx?File=6534>

Commission's questionnaire related to the state aid guidelines is attached to this document. The Commission should aim at an overarching set of principles for renewable support, consistent with the target model.

1. An overarching vision for the EU power market

We particularly welcome the commitment of the Commission that “renewable energy should be gradually integrated into the market with reduced or no support”, as well as the clear statement on an objective of a level playing field. However, we expect the Commission should already be working towards such an objective with respect to the post-2020 strategy for RES (if not earlier in the case of RES-E). We think indeed that the agenda must be accelerated on all the elements of market integration and management of externalities that were not addressed in previous policy objectives. We would have thus liked to see in the Communication more clarity regarding how this objective might be achieved.

We believe a priority task should be to elaborate a clear wholesale power market design, as a next step beyond the 2014 “target model”, to incorporate RES-E output and RES-E transactions. This should involve competitive bidding into the market in all timeframes applying to all types of generation. Any exceptions would have to be justified according to EU, not national, rules. Special treatment or financial support would need to be demonstrably market based, not distort competition and not adversely affect trade between Member States.

We agree with the Commission that “moving as rapidly as possible towards schemes that expose producers to market price risk encourages technology competitiveness”. But we would go much further and insist that RES-E producers should also start to make a contribution to competitive power market conditions. For this purpose they must take on clear responsibilities to contribute to market visibility, and transparency around transactions and asset utilisation. They should also contribute to system stability in a physical sense, by scheduling and having to balance their activities in the same way as other generators.

EFET also cautions against an approach which allows renewable investors to be totally insulated against movements in market prices. Some commentators justify this with the argument that this reduces investment costs and makes projects more “bankable”. However it also transfers these risks and associated costs to consumers or taxpayers. It also removes commercial incentives from developers to participate fully in the electricity market and damages the objectives of liquidity and competition.

We consider the existing voluntary market for renewable electricity as a first concrete step towards the integration of renewable energy in Europe. The primary focus of voluntary markets should be to allow a progressive expose of RES generation to a non-subsidised market environment, based on an efficient pricing of carbon, a progressive integration of externalities (such as back-up flexibility and balancing costs), as well as a decrease of support schemes (reference FIT tariffs).

2. Is a renewable energy target needed?

With respect to RES output or consumption targets, it is the EFET view that, in order to optimise overall carbon reduction, a post-2020 strategy for encouraging carbon-free generation should focus on well-functioning GHG emissions trading market. This market (in its current guise EU ETS) would ideally be used alone to deliver the right investment signals for RES-E generation. To the extent the

political judgement may be that an EU ETS will be insufficient on its own, we would favour binding targets on renewable energy consumption. But unlike the current disaggregation into national targets, we advocate that at least compatibility between support schemes be ensured through minimum common market design measures designed / approved at European level.

A voluntary market relying on the European Guarantees of Origin, as implemented under the current RES Directive, whereby tradable certificates based on retail supply portfolio quotas, could be implemented in parallel to the energy market. Such a system does not necessarily translate into a uniformed design across Europe, as long as the cross-border tradability of certificates is guaranteed. Different design options could still be possible depending on each Member State's energy mix.

If national schemes are allowed to continue to be the main driver for renewable investment, EFET would expect a much higher level of EU supervision in terms of compatibility supported by strong guidelines. Cross border exchanges and mutual recognition of renewable energy must be a central feature of such guidelines, in order to assure the integrity of the internal market as the penetration of renewables increases.

It may be that neither a centralised EU support scheme (based around ETS and GOs), or strong EU supervision of national schemes is thought possible. In that case EFET would recommend renewable targets to be indicative rather than being mandatory targets. Mutual recognition should be possible in any case and should not be excessively burdensome.

Whatever targets and schemes are chosen, the Commission must avoid repeating the current experience, whereby efforts to achieve RES consumption targets have undermined the emissions trading scheme, the central element of EU climate change policy, while also distorting the energy price signals, which should be an essential driver of energy efficiency objectives.

3. Let's not fool ourselves about the past and the present

We disagree with the Commission suggestion that the current renewable energy framework "appears to work well". Although some national support mechanisms have engendered rapid uptake of RES-E, a range of negative side effects have accompanied them, including;

- High costs to consumers and distortion of the retail market through allocation of costs only to "non-privileged customers". The additional cost to these consumers in Germany is expected to rise above Euro50/MWh in 2013.
- Reduced effectiveness of the emission trading certificates market, and arguably little additional saving in CO2 emissions beyond what would have happened naturally with phasing-out of coal fired generating plant and the recession
- Inefficient dispatch of generation plants and excessively volatile prices, with missed opportunities for RES-E producers to help develop flexibility
- Missed contribution to the liquidity of wholesale electricity markets through the exclusion of RES-E output from normal contracting processes in some countries

- Unpredicted physical network flows, leading to restrictions in the availability of cross border transmission capacity, distortions in cross border trade and restriction of cross border competition, due to insufficient contribution of RES-E generators to the planning of network operations and insufficient information exchange between RES-E generators and DSOs, and between TSOs and DSOs
- Limited development of the cooperation mechanisms or joint schemes provided for in the Directive due to an excessive reliance on individual Member State initiatives
- Deficient development of a proper standard for the Guarantee of Origin (GOs), hindering the implementation of a proper voluntary market

This situation cannot be allowed to continue indefinitely. The need for, as a minimum, European oversight of renewable support is essential.

4. What future for the internal market in renewables?

Until now there has been no development at all of the cooperation mechanisms or joint schemes provided for in the Directive, nor any progress towards a supposed “European market for renewable energy”. This is a central failure of EU renewable policy compared to what was promised at the time of the Directive being established.

However a market for renewable energy based on guarantees of origin is possible and being made a reality in the “voluntary market”. Companies with a desire to source a particular level of renewable energy have already been buying and selling these GOs, across borders, for some time.

5. Future steps

EFET’s assessment is that current policies have been successful in facilitating the ‘take off’ phase of renewable energy. However, too little consideration was given to the overall costs and efficiency of such policies, to the impact on other forms of generation which are still needed, and to network limitations (hidden externalities). As a consequence these policies are already reaching the limits of their workability and will certainly be insufficient for the fundamental changes to the energy supply mix envisaged in the post 2020 period. In terms of a “road map” for RES-E, EFET would therefore recommend the following progression of measures:

- Firm suggestions*
- by **2015** All renewable generation installations above a threshold of e.g. 5MW should have the same scheduling and balancing responsibilities as other generators, with a concrete incentive to sell their output directly on the wholesale market rather than to claim a special tariff.
 - Any **new** RES-E support schemes notified to the Commission should include these requirements.
 - A fully operational standardised GO system in all member states must be implemented as the backbone of trading on RES certificates.

Firm suggestions

The Commission should further encourage bi- or multilateral trading schemes between Member States which also provide mutual recognition of external schemes, particularly for RES projects that may be connected to more than one EU market.

Mature technologies should have all operating aid progressively decreased (e.g. onshore wind and solar).

by 2020

Both **existing and new** RES-E generation should be balance responsible and responsible for selling their own output into wholesale markets and their marginal costs should include all externalities.

Proposals for reflection

The renewable attributes of non mature RES-E technology qualifying for any remaining financial support and contributing to any remaining compulsory consumption targets must be tradable across EU borders and must be accepted for cancellation against the target applicable in the “importing” country.

Mature technologies should have all operating aid removed

by 2025

Another cycle of analysis and fine tuning of the market design should be made.

All support removed for **existing and new** projects so that the internal market including both RES and non RES technology can coexist in a coherent manner. New emerging technologies requiring R&D spending could still qualify for some support if promising.

These future steps are described and explained in more detail in Annex 1 attached.

EFET also observes that a lack of dialogue exists between Member States and the Commission with respect to a medium-long term vision. **We therefore propose that the “Amsterdam Forum” is revitalised.** This provides an opportunity to discuss future EU renewable support mechanisms and to focus on the changes that need to be made to current support schemes, and a timetable for doing so.

We remain at your disposal for any questions you may have.

Yours sincerely, on behalf of the European Federation of Energy Traders,



Jan van Aken
Secretary General