

Effective integration of renewable energy in the European power market

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Executive Summary

Developing renewable energy in an efficient, effective and sustainable manner

EFET believes that the current diversity of national financial support schemes for renewable electricity will not be able to support an increase in the share of renewable sources in the European energy consumption mix, to 20% and beyond, in an efficient way. We are convinced that only the introduction of market mechanisms to allocate such support, harmonised at EU level, can optimise cost savings and preserve the integrity of the market in electricity from other sources. In particular the prolongation of fixed feed-in tariffs, combined with absolute priority dispatch, will tend to block the advent of market mechanisms, of harmonisation and of the tradability across Europe of renewable attributes.

EFET vision in the shorter and longer term

Ideally, renewable energy should not require any subsidy at all, with projects being developed in response to the price of carbon. This would promote CO₂ emissions reduction by the most efficient means. We conclude that in the longer term mandatory reduction of such emissions should be the overriding objective of the European Union, since it is the policy instrument having the most direct beneficial impact on climate change.

In the meantime, a mix of simple administrative (or regulatory) and commercial measures could contribute almost immediately to a closer integration of renewable power in the overall European wholesale electricity market. Examples include:

- Addressing the question of priority dispatch for intermittent wind power in countries with feed-in tariffs
- Improving cross border congestion management operationally, so that involuntary flows caused by out-of-the-market RES-E power output do not block international transactions in the wholesale power market
- Making certificates issued in countries with quota schemes eligible for credits in other EU Member States

Transition problems

Two main problems are sometimes evoked as major obstacles to effecting a transition from feed-in tariffs to a green certificate scheme:

- The possible creation of windfall profits in the hands of sellers of certificates, and
- A failure to provide support for immature technologies

Windfall profits can largely be averted by leaving already existing renewable power plants in the old promotion scheme. This means that existing plants cannot affect the market price for “new” certificates, nor benefit from them. Meanwhile, as yet immature RES technologies can be promoted by research grants and tenders for subsidy instead of by per MWh payments to

producers. Grants and subsidies for each candidate technology would need to be limited either by a financial cap, or by total promoted capacity in MW.

Conclusions and recommendations

Support regimes have to be redesigned, and this is possible only gradually. We identify the priorities and necessary actions in the short term (until 2012), medium term (2012-2015) and in the long term (2016 onwards). In short term, there is the need to harmonise grid access arrangements, whereas the medium term challenge consist in developing a model for a European quota market. In long term, a European wholesale market for green certificates should be in place, and a minimum renewable quota requirement should be imposed on all energy suppliers (including heat and transport).

In addition, we encourage the European Commission, the Member States and the energy Regulators to take the necessary steps for supporting an orderly integration of RES sources into the power markets.

EFET recommends that, even in advance of any fundamental or binding reforms, the following actions be started now by the EU Commission and by Member States:

The EU Commission:

- Step-up efforts to prepare for the scheduled 2014 review of the present Renewable Energy Directive 2009/28/EC, focusing on enhancing the role of the internal market, trade and competition
- Consider bringing forward a review on a voluntary basis
- Provide a support function for Member States, which wish to be frontrunners in creating truly European solutions to the long-term sustainable energy challenge
- Give the existing Florence, Madrid and London Forums, chaired by the Commission, an additional focus on integration of renewable energy in the internal market

Member States:

- Exploit the potential for co-operation mechanisms, which exist under the Directive, including statistical trading, financing of joint projects and joint support schemes
- Explore on a voluntary basis a harmonisation of their schemes, to facilitate future cross-border trading mechanisms
- Seek to introduce incentives for RES-E generators not to over-produce at times of low demand, and to back up their own assets with reserve and balancing services in the market
- Reward TSOs for preventing surplus RES-E output at times of low demand from blocking interconnection capacity, which could otherwise be available for commercial use