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Council of European Energy Regulators, CEER

Stockholm, 30 December 2011

Nordenergi answer to public consultation "Implications of Non-harmonised Renewable Support Schemes"

Nordenergi is the joint collaboration between the Nordic associations for electricity producers, suppliers and distributors.

Nordenergi welcomes CEER's consultation on this important topic. The consultation paper is both timely and relevant. Nordenergi recognises that non-harmonised support schemes can lead to cost-inefficient outcomes. The consultation paper also correctly mentions other factors such as grid tariffs, market integration etc which play an important role in the investment decision. However, fundamental factors such as long term energy balance in different countries/regions and sufficient transmission and distribution capacity find little mention in the document, which in the view of Nordenergi also are important factors for the development of renewable energy production.

Q1: How significant do you consider the impacts of non-harmonisation of support schemes to be for the development of RES and RES technologies?

The non-harmonisation of support schemes in the EU leads to suboptimisation resulting in cost-inefficiency, hence higher costs for the customers or tax payers when fulfilling targets for renewable energy. Therefore, the harmonisation of support schemes and preferably also a decoupling between physical and financial issues are significant. The non-harmonisation of support schemes has definitely an impact on location of investments, directing investments to locations where the highest support is offered and not necessarily to locations where production costs are low and may also lead to unnecessary grid constraints.

Different levels of support in different countries lead to support competition between member states and this is a contradiction to main EU principles. This support competition does not affect only the electricity market but also the biomass market leading to unoptimal trade of biomass.

Ideally, harmonised support schemes would be the preferred solution.

Harmonisation of support schemes across EU is however not an easy issue. There are a lot of elements that decide where it is most optimal to invest. One element is how new renewable capacity can be balanced in the electricity system – too much intermittent or

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variable renewable production in one region will put heavy burden on the short term balancing capacity and the longer term back-up capacity. Another element is that there will be power surplus areas and power deficit areas due to the fact that grid construction will take longer time than construction of production units. These elements have to be taken into account in future policy making.

Further, investors must be able to trust support schemes on which they have based investment decisions. This means that changes in and harmonisation of support schemes must be long term. First priority should be on harmonisation of support levels. Eventually, renewable electricity production should be market-based and subsidies phased out.

Q2: 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?

Other non-harmonised factors of importance for RES development are;

- lack of an integrated European energy market. Successful growth in renewable energy depends on a well functioning and integrated European energy market. This also includes the need for market integration tools such as functioning day-ahead market coupling, cross-border intraday and cross-border balancing markets
- lack of planning and investments in interconnectors and transmission grid within countries from an European perspective. This is an obstacle for market integration and the increase of renewable electricity in a cost-efficient way
- handling of costs for connection to the grid and different grid tariffs. Different ways of handling this in member states could for example have an impact on location of new production units.
- permitting procedures. These procedures are too lengthy both concerning new production capacity and transmission/distribution capacity. Permitting procedures for transmission grids are more lengthy than for new production units.
- differing balancing responsibilies for RES integration in member states. RES generation can best be integrated into the market when it has equal balance responsibility as other generation forms and when the generation is sold through normal market mechanisms. Equal balancing responsibility will keep the system balancing needs and costs affordable.
- lack of common rules and incentives for use of co-operation mechanisms. Use of co-operation mechanisms should be incentivised to ensure cost-effectiveness. National Renewable Energy Action Plans show a clear lack of intention to use the co-operation mechanisms. The lack of development of common rules is an obstacle for the use of co-operation mechanisms. Harmonisation of support levels could incentivise the use of co-operation mechanisms.
- non-harmonisation of different EU-policies, such as conflicts between Renewable Energy Directive and Water Framework Directive and conflicts between EU Renewable Energy/Climate Change policy and Energy Efficiency Policy
- lack of necessary incentives for flexible and back-up capacity needed to integrate renewables into the market. There is on-going development in member states to tackle the growing need for flexible and back-up capacity due to increasing variable

renewable power capacity. Capacity issues should be tackled on a European level rather than country by country in order to avoid market failures.

- lack of incentives to encourage DSO:s to invest in smart grids and lack of market model for smart grids and demand-side participation. Smart grids are essential in providing tools to activate demand flexibility and to integrate renewables into the market.

Q3: 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 and stability of support as explored in this paper.

As stated in the answer to question one above the main implication on non-harmonised support schemes is reduced cost-efficiency. It is probably mainly the differences in level of support which hinders a cost-effective outcome. National regulation that excludes certain types of renewables or plants over a certain size also hinders a cost-effective outcome.

Other main factors of importance are:

- lack of an integrated energy market, especially for intraday and balancing
- lengthy permitting procedures and differences in this respect in member states
- lack of European perspective in grid investments
- differences in handling of costs for connection to the grid
- differences in balancing responsibility and lack of market-based incentives for hourly generation dispatch

Q4: In your view, does this consultation document capture all major implications of non-harmonisation of support schemes? Are there additional impacts on investment decisions, market functi oning or any other areas you consider relevant?

In the report the characteristics of different types of support schemes are described. The fact that quota systems support only the most cost-effective technology is described as a disadvantage but in the view of Nordenergi this is definetly an advantage to reach targets cost-effectively. It reduces overall costs which is very postive.

The report describes the different effects support schemes might have on the wholesale market price. The report claims that quota systems have a direct effect on the wholsesale price and that FIT have an indirect effect. Nordenergi does not agree with the method or arguments which are used in this analysis. Both systems have an effect on the price as supply on the market is increased (no matter how the technologies are subsidised). Depending on transmission capacity and phase-out of existing generation capacity etc. this will have different effect in the different areas. The potential effect is generated from the created priority access to the grid, not the subsidies themselves. In order to avoid negative market outcomes all generation should participate in the market with equal balancing responsibility.

Furthermore, although non-harmonisation of support schemes is inefficient, it is not an obstacle for market coupling. This is easily illustrated within the Nordic electricity market with current amounts of renewable production. However, with increasing amount of subsidised production the risk increases of further market distortion from capacity markets that might in such case be considered necessary.

Stockholm, 30th of December

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