

Annex

General Review in 2014 leads to investor's uncertainty and additional costs

The press release of *Eurelectric, RECS and EFET* (10th November) has illustrated the kind of discussion that will have to be expected from a general review on the flexibility instruments in 2014: a re-opened debate on introducing an EU wide certificate trade for target compliance.

The outlook of the possible introduction of such an EU wide certificate trade for target compliance will lead to massive investor uncertainty and at a higher cost for achieving the renewables targets.

A uniform EU wide certificate trade for target compliance would be a fundamental change of investment conditions. The possible advantages of such an EU wide trading scheme will be largely outrun by higher costs due to windfall profits, a race for the highest subsidies and volatile investment conditions.

The Commission has outlined in its impact assessment that in an EU wide certificate trading scheme, the expected shift of RES-E generation to the areas with the highest and cheapest renewables potentials might lead to possible savings of up to 8 billion €. Notwithstanding, that this figure is supposed to be very optimistic and a figure of approximately 2 billion € is more likely, these savings go along with a cost explosion in support schemes. The Commission's impact assessment has also outlined that this allocation of least production-cost efficiency is largely outrun by estimated higher windfall profits for operators of RES-E installations of up to 30 billion € compared to an EU wide technology specific price-based support scheme in 2020 (see annex to the impact assessment SEC(2008) 85 VOL. II., p. 104.).

These windfall profits are due to the fact that quantity-based certificate trading schemes do not differentiate between the various RES technologies. Instead, there will be a uniform market price for each kWh RES-E, which settles down at the cost level of the last, most expensive technology that is needed to meet the target obligation. Obviously, the EU's commitment on 20% RES by 2020 represents a necessity to achieve the transition of the energy systems towards sustainability which calls for ambitious action in all energy sectors and requires a broad portfolio of RES technologies. Consequently, a policy approach based on uniform support would allow for enormous windfall profits for technologies that generate energy at lower costs. Furthermore, a quantity-based support will be very volatile and will lead to higher interests on loans and higher profits to be gained for refinancing reasons.

Moreover, a race for higher subsidies is likely since

- in order to meet their target, Member States with technology specific support schemes have to buy back kWh RES-E at a higher market price compared to their technology specific price support; and
- Member States who want to ensure security of supply based also on Renewables have to ensure RES-E generation within their country.

This cost explosion is likely to endanger the public acceptance of Renewables support as such. It could therefore prevent Member States from ensuring stable long term investment conditions beyond their national overall targets. This would particularly put in question the well established and most cost-efficient price-based support schemes.

Flexible instruments of co-operation between Member States foreseen in the current draft of the Directive combine possible RES-E generation in areas with the highest renewables potentials without cost explosion. Member States can establish a framework for companies to gain for least production-cost efficiency through joint projects or joint support schemes whilst keeping in control of the overall costs of Renewables support.

This promising approach should not be drawn into question at the very beginning, which will occur by having a trade in guarantees of origin (GO) outlook in 2014. The Directive should give Member States incentives for using flexible instruments of co-operation in order to realise their potential. The outlook for a general review in 2014 imposes a counter-incentive of doing nothing at all until 2014, particularly for countries with lower renewables potentials. Wasting 5 years and giving an outlook for such a fundamental change of renewables support, as a GO trade, will cause unstable investment conditions. Investor's uncertainty and the need for rapid measures as of 2014 will enormously raise the overall costs of target compliance.