



## **EREC's Position Paper on the future of support systems for the promotion of electricity from renewable energy sources**

EREC and its members, the European renewable energy industry, trade and research associations

- EPIA (European Photovoltaic Industry Association),
- ESHA (European Small Hydropower Association),
- ESTIF (European Solar Thermal Industry Federation),
- EUBIA (European Biomass Industry Association),
- EUREC Agency (European Renewable Energy Research Centres Agency)
- EWEA (European Wind Energy Association)
- AEBIOM (European Biomass Association) and
- EGEC (European Geothermal Energy Council),

representing a European industry sector with an annual turnover of more than 15 billion Euro, believe that the Directive on the promotion of electricity from renewable energy sources, adopted in 2001, will be considered for evaluation and possible amendments in 2005 and therefore presents its opinion to this important debate.

As part of the debate where the Commission may present a report next year at the latest by October 27<sup>th</sup>, EREC provides its analysis and comes to the following conclusions:

### **Executive Summary**

#### **Effective competition in the conventional power market is a precondition for harmonising support mechanisms for power from renewable energy sources:**

- EREC welcomes the idea of harmonising support mechanisms to avoid further market distortions in the European power market. But such harmonisation must be well prepared to avoid disturbing existing markets. The first step towards harmonisation for renewables must be a well-functioning, undistorted, Internal Electricity Market and a truly level playing field.
- 95% of the European Internal Electricity Market is based on conventional power sources and 5% is based on renewables (without large hydro). There are numerous distortions in the 95% conventional electricity market, and competition is far from being effective.

## **Too early to harmonise support mechanisms for renewables**

- A harmonised Community-wide support mechanism for renewables at this early stage would be premature, since there is not yet enough experience as to which system would be the most effective on a EU level to guarantee market development of all the renewable energy technologies.
- There is no practical evidence yet of effectiveness beyond feed-in and fixed-premium systems. Quota based mechanisms have not yet proven their ability to provide investor security, attract investment and provide considerable deployment. These must be given time to develop further in order to provide real experience rather than theoretical hypothesis.
- Any national support mechanism should guarantee an adequate return on investment to ensure attractiveness of investments adapted to the level of costs of all RES technologies .

## **Setting mandatory renewables targets:**

- Setting of mandatory national targets for 2010 would be appropriate and lead to more efforts in all Member States.
- New ambitious, mandatory, national targets for 2020 would show the EU's commitment and would significantly enhance investor confidence. 2020 targets would also dramatically increase the Community's chance of meeting the existing 2010 targets.
- Reaching technological diversity within the renewable energy sector is crucial and the aim of any support mechanism should be to encourage and strengthen this diversity.
- Indicative targets for the share of the different renewable energy technologies in 2020 should be set at the overall EU level in a process similar to the one that established the overall EU 2010 White Paper targets. That would strengthen the aim of reaching technological diversity in the renewable energy sector and enable each of the different technologies to realise its competitive potential.

## **Removal of Administrative barriers:**

- Administrative Barriers in the Member States should be removed more effectively, both, by stronger regulation on the EU level and by better transposition of the already existing legislation on the national level.

**Give grid access priority to renewable energies:**

- The rules on grid access for and transmission of renewable electricity should be further harmonised and strengthened in favour of renewable energy technologies. Member State transposition of existing legislation on grid access must be secured.
- Recommendations from the Commission should be given for national promotion mechanisms, that include long-term stability, technological diversity and effectiveness in reaching the national mandatory targets.

**Ensure technological diversity and raise public awareness:**

- A broad diversification and support of all existing RES technologies is crucial for the further development of a truly sustainable energy system.
- A greater focus on the European, national and regional level should be placed on raising public awareness of the benefits of renewable energy technologies.

## **EREC RECOMMENDS THE FOLLOWING:**

### **Background**

During the White Paper discussions, the European Parliament called for a European-wide harmonised system for the promotion of electricity from renewables, based on a feed-in system. But, as the most successful model in terms of market penetration and growth rates for renewables, the feed-in system with fixed prices, did not have a majority in the Council at that time, and the European Parliament withdrew its demand. It must be recognised that the current political reality make it doubtful whether such a system could be introduced in an effective way on a European level at this time.

### **Effective competition in the conventional power market is a precondition for harmonising support mechanisms for power from renewable energy sources**

EREC welcomes the idea of harmonising support mechanisms to avoid further market distortions in the European power market. But such harmonisation must be well prepared to avoid disturbing existing markets. The first step towards harmonisation for renewables must be a well-functioning, undistorted, Internal Electricity Market and a truly level playing field.

95% of the European power supply is based on conventional power sources, including large hydro, and 5% is based on renewables (without large hydro). There are numerous distortions in the 95% conventional electricity market, and competition is far from being effective.

While some stakeholders in the conventional European power sector ask for competition amongst renewable energy producers, it should be recalled that effective competition in more than 95% of the market that is based on conventional electricity is a far cry from reality as pointed out in the European Commission's three benchmarking reports on the Internal Electricity Market.

It seems premature to call for competition in the renewables power segment at a time of non-competition in conventional power. Renewable Energy technologies could already be competitive if they had received the same attention in terms of R&D funding, subsidies, and if external costs were reflected in power prices. Removing subsidies to fossil fuels and nuclear and applying the 'polluter pays' principle - established in Article 174 of the Treaty - to the electricity market, would go a long way to level the currently non-level playing field and reduce the need for renewables support drastically.

As long as no true internalisation of external costs via a fair taxation mechanism is introduced in Europe, there will be no level-playing field. And as long as this is not happening, support mechanisms for renewable energy power are not only necessary, but also have to be judged as fair and compensational for the avoided external costs and subsidies and other support given to conventional energy.

## **Too early to harmonise support mechanisms for renewables**

Unless the numerous current distortions in the emerging Internal Electricity Market are overcome, there will be no effective Internal Renewable Electricity Market for renewables to compete in given the many interactions between the conventional power markets and renewable electricity markets.

A harmonised Community-wide support mechanism for renewables at this early stage would be premature, since there is not yet enough experience as to which system would be the most effective on a EU level to guarantee market development of all the renewable energy technologies.

As a result of the adoption of the Renewables Directive in 2001, several national support mechanisms have been introduced during the past years and many are still in the implementation stage. So far experience clearly shows that only feed-in systems and fixed-premium mechanisms have proven their ability to be effective in, attracting investments, creating investor confidence, reaching the national targets and creating a technology diversity.

Introducing any harmonised, Community-wide system at this stage would lead to serious market instability and threaten technology development as well as the world's largest markets for renewable energy technology. Alone the initiation of discussions on how concretely such a system could be designed and adapted at the European level could lead to serious investor insecurity, threaten Europe's global leadership position in renewable energy technology and undermine developing and already functioning national markets.

Harmonising support systems now would seriously threaten the development of the European renewable industry, especially if an untested mechanism is pursued. It should also be stressed that even systems that have proven successful at national level is not easily adapted to multilateral cross-border trade. Furthermore, many examples have shown that even small adjustments to a framework can have a profound negative effect on the markets for renewables. More fundamental changes will have an even greater effect on the markets. A dramatic shift in all Member States' frameworks would jeopardise national renewable targets and undermine investor confidence.

Consequently EREC propose to improve the European framework and prepare for a Community-wide mechanism without harmonising the support mechanism at this stage. At a later stage, when more experience has been gained with the full range of policy options and when the serious market distortions in the conventional power markets have been overcome, harmonisation might be considered.

At this stage it seems clear that it is too early to introduce a harmonised support mechanism for renewables electricity. Instead the EU should introduce detailed recommendations for the Member States and improve its legislation on the European level where necessary. Such recommendations would limit the variety of systems and could lead to bilateral cross-border agreements between Member States having similar systems. With a proof of being successful certain Member States with the same design of support mechanisms could start clustering their systems and by that seek to create and test cross-border mechanisms. In this way more experience would

be gained about the full palette of options and a decision on future harmonisation can be based on more evident knowledge.

Finally, it must be stressed that successful frameworks require not just a good payment mechanism and the encouragement of public support, but also effective policies to remove the numerous barriers to grids access and transmission and barriers in the form of administrative procedures and non-transparency.

### **Setting mandatory renewables targets**

To ensure investor confidence it is at first not the most important which system exists, but that the investor can rely on the long-term stability of any existing support mechanism. Creating stop-and-go markets by changing the level and nature of support frequently must be avoided. At least a ten-year guarantee for any national system should be given and be obliged by the EU. A first step to reach long-term stability and create investor confidence should be to change the existing indicative targets into mandatory targets for 2010. The early setting of new mandatory targets for the period after 2010 would reduce uncertainty among investors and offer stable market conditions. The EU should set new binding targets for 2020 that aims at reaching at least a 33% share of renewables electricity by that time and break this down into national mandatory targets<sup>1</sup>, in a process similar to the one that established the overall EU 2010 White Paper targets.

The experiences on the national levels show that it is possible with the right design of a support mechanism to reach the given national targets. Any system to be adopted on the national level should be focussed on being effective in meeting the targets.

### **Removal of administrative barriers**

Complex licensing procedures for renewable projects constitute one of the most difficult obstacles renewables projects have to face. The existing European rules (Art. 6) seem to be either too weak or not properly transposed into national law. These rules should be strengthened in favour of renewables. A clear timetable for approving RES projects should be set for all administrations on all levels. Priority to RES-projects should be given.

The Commission should propose more detailed procedural guidelines to strengthen the existing legislation on the EU level and at the same time increase the efforts on the national level to implement current EU legislation in the sense in which it was intended.

<sup>1</sup> The EREC study „New European RES target: 20% by 2020“ could be the basis for this, as well as the European Parliaments Resolution from April 1st, 2004, calling for „the necessary efforts to reach a target of 20% for the contribution by renewable energy to total domestic energy consumption in the EU by 2020;“ (P5\_TA(2004)0276)

## **Give grid access priority to renewables**

Rules on grid-access, transmission and cost sharing are not sufficient at the European level. Article 7 of Directive 2001/77 is not clear enough on all aspects, especially concerning cost distribution and transmission fees. As already demanded by the European Parliament during the negotiations of the directive, these rules should be set out much more favourably for renewables and the implementation of the EU rules into national law should be controlled and enforced more strictly by the Commission.

Where necessary, grid extension or reinforcement costs should be born by the grid operators and shared between all consumers, because the environmental benefits of renewables are a public good and systems operation is a natural monopoly. A strict legal unbundling and strong regulation should be implemented in this field.

## **Ensure technological diversity and raise public awareness**

For the benefit of encouraging technological diversity amongst the different renewable energy technologies, the EU should set overall indicative targets on the EU level for the different renewable energy technologies similar to the process pursued with the existing White Paper targets. That would ensure that not only the most mature and cheapest available technologies will be developed.

Any support mechanism on the national level should take into account the diversity of renewable energy technologies. All Member States should be encouraged to support a wide range of renewable energy technologies with respect to geographical possibilities and variations of scale.

Different renewable energy technologies work in different market segments and may require different approaches in order to reach their competitive potential as soon as possible.

In the long run, a truly sustainable energy system will have to be based on a mixture of renewable energy technologies, each with different strengths and by that complementing each other. Supporting only the renewable energy technologies with the lowest cost would undermine the existing industrial structures of less competitive technologies and ignore the potential to develop future renewable champions. Only by today developing a wide range of technologies and creating stable market conditions for all technologies in their own market segments will broad European market leadership in renewables be sustained and strengthened.

## **Encouraging Local and Regional Benefits and Public Acceptance**

The development of renewable technologies can have a significant impact on local and regional areas, both due to installation and manufacturing. Some support schemes include public involvements that hinder or facilitate the acceptance of renewable technologies. A support scheme's ability to encourage local/regional development, employment and income generation should be investigated. It should also be assessed whether the characteristics of a support scheme would be able to

sustain public acceptance of renewables, including positive impact or increased stakeholder involvement.

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