July 30, 2013

Position Paper: The Future of EU Support Systems

RECS International Is a non-profit, Brussels-based organization with more than 200 members representing every step in the European electricity market. We encourage the further generation of immerging renewable energy technologies by increasing competition and cost-efficiency through the expansion of cross-border trade and international cooperation mechanism.

Keeping energy affordable for the consumer should be the highest priority of any liberalized marketplace. With the electricity market these needs must always be balanced against the desire for increased reliability and further sustainability. RECS International feels that the focus on socialized support systems, where no single end-consumer is allowed a choice in their electricity product, has led to an inattention to cost-efficiency. The focus on sustainability and reliability has indeed produced short-term increases in the actual installed capacity of renewable production sites but cannot be considered in any long-term vision for the future of European energy support systems.

Any future support system must balance the principles of cost-efficiency, sustainability and reliability equally in a market-based approach. In such an approach the adherence to the three pillars of the European energy market are held true under the European treaty for a single and open European marketplace.

Market based Approach to Renewables

The intention of the European Commission has always been to make the internal energy market a reality, some notable figures have pressed for this to occur as soon as 2014. While steps have been made in that direction, the promotion of socialized national support schemes for renewable electricity has limited its progress. Steps need to be taken now to support the growth of market-based renewable support solutions. These market-based support solutions have the ability to foster competition among electricity producers and among various renewables technologies. We have seen some national examples of these market-based systems, most notably in the Swedish-Norwegian support systems, showing that this can lead to more cost-efficient renewables growth in more optimal locations[1].

The current support systems, for a majority feed-in systems, have indeed led to actual installed capacity growth but at the cost of a stable marketplace. The distortions to the electricity market, due to the current support mechanisms, increase costs and provide barriers to future investments. Notably items such as grids improvements and the need for interconnectors to eliminate price areas are also partly to blame, but the distortions created by the current support systems cannot be underestimated. For this reason, it is the opinion of RECS International that all three pillars of the European energy market must be in balance allowing for an open marketplace where the amount of European renewable technologies is growing in a strong and healthy manner. We believe this is best accomplished through a tiered support system.

[1] Not enough research has been done comparing the cost-efficiency of various support systems. Initial indications however have shown that the Norwegian-Sweden El-cert system have delivered renewable installed capacity growth at a lower cost, per MW of installed capacity, than traditional feed-in tariffs.

Consumption Targets for cost efficiency

Before any discussion of support systems it is critical that the target, for which the support systems are used to reach, are clearly defined and indicated. By distinguishing between production targets and consumption targets we are able to optimize the support options against the goals of the European energy policy pillars. CO2 production targets, meeting the need for increased sustainability, can be met through mechanisms like the EU-ETS. The EU-ETS provides transparent price signals in a clear and easily understood manner. If the need for additional reductions exceeds the supply of credits than the price of carbon will increase in near real-time. This allows project investors the ability to invest in the needed carbon reductions off-site if the prices are low, or to implement their own on-site carbon reduction measures if the price is high. While the market for CO_2 itself may be criticized for its price stability, this was a direct result of the financial crisis in 2008 and could not have been predicted by market experts. Small policy improvements can be fixed while allowing the EU-ETS to better function post-2020. Competition, the second pillar of EU energy pillar is well supported under the EU-ETS. It allows for a single carbon market, across the EU, with clear price signals and the natural cost efficiencies of an open, liberalized marketplace.

The final pillar of the EU energy policy is that of security of supply. Security of supply is addressed in a target by decreasing energy consumption (energy efficiency) and consequently increasing specific types of energy services (notably renewable or European produced). This energy consumption target must reward the reduction of energy use and increase in renewable consumption equally. To do this effectively in a cost-efficient and competitive manner, support systems made to address the consumption target must acknowledge the improvements in the voluntary market for renewables (The GO market) that have taken place over the last 10 years.

The separation of production targets and consumption targets also allows for the natural distinction between supply-side and demand-side activities.

A tiered approach for Consumption Targets

RECS International proposes that any target used to meet the need for increased security of supply must use and strengthen the internal market for renewable energy. The following plan accomplishes this and as a result can significantly reduce the cost of new renewable installed capacity around Europe.

1. *Freeze the conditions for all existing plants under a FIT or bonus systems:*
   Retroactively changing support schemes is neither beneficial for the investor nor consumer. Investors have chosen to go forward with their project under a given set of parameters and it is unrealistic to change these after the installation has been built.

2. *Create an (optional) security of supply, consumption-based target in all member states:*
   For new renewables investments a tier-1 consumption target for all member states should be created. The EU must decide if this target should be binding or indicative. If indicative, each member state will have the option to mandate this target at the national-level.

   Under the tier-1 consumption target all types of European renewables technologies would be eligible. If this plan were to be introduced prior to the end of the 2020 targets, than national tier-1 targets would be derived from the existing national targets for 2020 excluding what has been achieved up until now. The obligation is most effective if it is placed upon the electricity suppliers.

Much like in the Norwegian-Swedish El-Cert system, support certificates would be created for each MWh of renewable production in Europe. Current voluntary certificates are already being issued at more than 250-TWh of production every year. This corresponds to nearly 1/3 of all renewable services in Europe proving that the technological barriers for the issuance of support certificates are no longer an issue. This task would be easily accomplished by the already appointed national competent bodies responsible for the issuance of national GO certificates when requested by a producer.

The support certificates used to meet the national consumption target/tiered support system would be fully open to cross border trade with some exceptions for those national governments wanting guarantees of locally produced, domestic renewable electricity production. Closing the borders completely, as is the situation for most member states today, reduces competition and eventually creates an expense paid for by the end-consumer, seen partly in the less efficient renewables placement. The commission should decide upon a minimum percentage of the consumption target that each individual member state is required to allow as coming from international renewable production sites. One example could be that the commission requires that 25% of the consumption target on suppliers could be acquired from international sources. Naturally, if market signals allow for the quota obligation to be met from cheap domestic consumption that is fine as well, but a supplier should not be required to only consume domestic production and be free to explore international options for a portion (in this case 25%) of their tier-1 consumption target. Member states will have the possibility to decide on a higher degree of internationalization allowing a bigger share of imports than 25%, if that is their desire.

The consequence will be more competition among renewables in Europe and on-shore wind would likely set the marginal price. This will lead to a higher degree of cost efficiency but not trigger new technologies in need of more development. Therefore a tier-2 consumption target for less mature technologies would be needed.

3. *Create a tier-2 consumption target in all Member States:*
   A tier-2 consumption target will have a very similar design as seen in the tier-1 consumption target with the exception that not all renewable technologies will be eligible. On-shore wind and cheaper technologies would be excluded from the consumption target only allowing investments in less mature and consequently more expensive technologies, e.g. PV or off-shore wind. The consumption target for tier-2 should represent a volume above the tier-1 volume target created by the EU.

The tiered support system is not untested. Sweden and Norway are common European examples, but systems like this also exist around the world. A majority of the individual states in the United States of America have Renewable Portfolio Standards (RPS) defined in a similar way to this tiered support proposal. While each of these states has different targets as well as different technologies that are eligible to meet individual tiers, all systems allows for the consumption of renewables from other states to increase the effective placement of technologies.

5 Key Messages from RECS International

1. A stronger focus must be given to realize a truly **open**, **competitive** and **liberalized energy market**. An internal market for renewables is critical and was seemingly ignored in the 2020 framework. National support systems are more cost-effective at implementing renewables when the system allows for cross border trade. Making sure support systems are cost-efficient and competitive

should be of the highest priority for the framework-2030. That being said, there are steps that can be taken immediately to improve competition in the framework-2020.

2. There must be a separation of **consumption targets** and **production targets**. Traditionally targets for climate change and security of supply have been production-based targets, based upon the production of CO2 or renewable electricity. These should be delinked and mandatory targets for reductions in the production of CO2 must be continued (EU-ETS). Targets for the further implementation of renewables should be optional and based on the consumption of renewable electricity within a member state. Consumption figures are easily obtained via the reliable and robust systems proven via Guarantee of Origin or certificate tracking in general.

3. Inline with an open, liberalized market, the **individual electricity end-consumer** should not be overlooked. The end-consumer of electricity is both small (a household) and large (multi-national corporations and production facilities). These end-users often make dedicated choices for their electricity consumption and their choice for renewables should not be ignored. A functioning and liberalized market would introduce mechanisms where the consumption of electricity by the end-consumer could affect the national renewable targets. This provides a benefit to the implementation of renewables and reduces the cost of new renewables production on the end-consumer.

4. In order to stay inline with the need for competition, **only market-based support solutions** should be considered. As such, the most obvious market-based system, cap-and-trade for GHG, should be strengthened and have continuing targets post-2020 to reduce the total production of CO2. The EU can choose to implement binding or indicative national targets for security of supply/energy efficiency.

5. In order to **increase competition** we must **increase the cross-border trade** of energy and electricity. This is not just facilitating the physical transfer of electricity but also acknowledging that electricity attributes are commodities that are traded internationally via standardized electricity tracking systems (GO). The GO needs standardized rules for the consumption, cancelation and information delivery to consumers in all member states, including rules regarding electricity disclosure (fuel-mix disclosure) and consumer information (how the consumer is informed about their electricity/energy purchases).