

Mr. Günther Oettinger  
European Commissioner for Energy  
B-1049 Brussels, Belgium

Postbus 1130  
6801 BC Arnhem  
Nederland  
026 356 94 24  
secretariat@reecs.org  
www.reecs.org

**Date:** April 11, 2013  
**Subject:** Open letter to Oettinger regarding support systems and the implementation of cost-effective market-based systems

**Reference:** Interview in the *Frankfurter Allgemeine Zeitung* on Tuesday the 2<sup>nd</sup> of April, 2013.

Dear Mr. Oettinger,

With reference to your interview in *Frankfurter Allgemeine Zeitung* on Tuesday the 2<sup>nd</sup> of April, we would like to take the opportunity to express our view on how European support schemes could best be amended. Hopefully this letter can serve as an inspiration for the on going discussions within the Commission on how to improve existing support schemes.

**We are convinced that market-based systems, like the quota model, are strong candidates for slowing down the fast increasing costs we are experiencing. The Swedish implementation of renewables shows that a cost-efficient increase of renewables production is possible.**

***Why implement market-based systems for renewables production?***

Market-based systems, like the quota systems, foster competition among electricity producers and among various renewables technologies leading to the most cost-efficient renewables growth in the most optimal locations. Quota models are also easily made international. This ability to easily create cross-border trade opens the door to larger markets, improved competition and an extreme increase in the cost-efficient placement of renewables Europe-wide.

You have previously stated that the internal energy market should be a reality in 2014. However, maintaining national promotion schemes for renewable electricity is not in line with this agenda. Losing the natural cost-effectiveness of the internal market, also for conventional power plants, will add to a further cost increase of electricity in Europe.

The ease of internationalization, improvement of competition and technology neutral approach that a quota system provides is necessary for the future of cost-efficient renewables production. This market driven approach is in line with the European treaty and founding principles of the EU, unfortunately very little research has been spent proving the efficiency of quota systems over that of the feed-in scheme. But a quick comparison of the Swedish quota system versus the German feed-in scheme provides some obvious points of interest.

***A comparison of costs: Support schemes in Sweden and Germany***

In Sweden the customer cost for the support scheme, the el-cert green certificate scheme, was 0,4 €/kWh in 2012. The customer cost for the German Feed-in tariff (FIT) scheme was 3,6 €/kWh during the same time period and has increased to 5,3 €/kWh in 2013. This price on the German consumer is more than



10-times that of the Swedish consumer. Arguably, however, this may not be a fair comparison. The share of renewable electricity production in the Swedish scheme, with existing large scale hydro not included in the scheme, was 15% of the total electricity consumption. The corresponding figure in Germany is 20%. But, on the other hand, the electricity price in Germany is 10-20% higher than in Sweden and the support will be paid for 20 years in comparison to 15 years in Sweden. The combination of technology specific tariffs, instead of a technology neutral scheme without a cap, has resulted in a 10-fold higher cost for German customers than for Swedish customers.

The fact that PV is supported in large volumes in Germany makes the German system much more expensive than the Swedish system. If we exclude German PV we are provided with a more relatable comparison of the two systems. When we exclude German PV we are left with 15% of the national renewable production in relation to the total German electricity consumption. This 15% is the same percentage as in Sweden for the same technologies. The difference is the cost on the Germany consumer. Germans paid 1,6 €/kWh in 2012 and 2,5 €/kWh in 2013. This is at least 4-times more expensive than the Swedish system even when in the Swedish system all technologies get the same price. The main difference between the Swedish and German systems, which would explain this price difference, is that the Swedish system is market based and as such has effectively saved costs to the Swedish consumer.

Quota systems are also easy to internationalize which help to increase cost-efficiency. The el-cert system in Sweden has been linked to a similar system in Norway. Not everything is harmonized, but this is also not necessary. The Swedish el-cert system now allows suppliers with a quota obligation to use certificates from any eligible production plant in the joint Swedish-Norwegian market. This opens the market to provide more opportunities for suppliers to meet their quota obligation, increasing competition and lowering the price for new installed capacity.

#### ***Will cooperation mechanisms lead to improved cost efficiency?***

It seems unlikely since most Member States have not demonstrated much willingness to use the cooperation mechanisms currently available. It seems also unlikely that Member States will create their own cross border trading platforms. In addition, the hope for joint projects between Member States is overrated and time-consuming. National governments would need to agree on every detail of each individual project – not a single project has materialized in Europe as of yet. More speed is needed and this can only be created by letting the market players act in an open-market. This is what was created in the case of Sweden-Norway with their joint certificate scheme.

#### ***Quota systems do not promote new technologies!***

Most frequently it is believed that quota-systems can only support mature renewable technologies, however, this is not always the case. There are many ways to support immature technologies, most popularly is R&D support, but it is also possible to support emerging technologies via a tiered-quota system. This increases the ability of the market to select the most suitable and cost-efficient technology available within that tier. This then increases the government's ability to have technology neutral renewables growth.

#### ***In the following we present how an EU-wide competitive market-based solution, not disturbing current commitments, could be constructed***

##### **1. Freeze the conditions for all existing plants under a FIT or bonus system.**

Retroactively changing support schemes is neither beneficial for the investors 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 a tier-1 quota obligation in all member states

For new renewables investments a tier-1 quota obligation for all member states should be created. Under the tier-1 quota all types of renewables would be eligible with possible limitations based on the physical European potential for near mature, cheap, renewable technologies. The EU target for tier-1 should be translated to national targets the same way as the existing national targets for 2020 have been established. The obligation is most effective if it is placed upon the electricity suppliers.

Our hope is that the national quota systems would be fully open to cross border trade but we recognize that some national governments would like to have some 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. The commission should decide upon a minimum percentage of the quota 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 quota obligation 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 quota obligation. 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 quota for less mature technologies would be needed.

## 3. Create a tier-2 quota obligation in all Member States

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

This means that suppliers in Europe will have two quota obligations, for tier-1 and for tier-2. Tier-2, as usually originating from more expensive sources, can be used for the tier-1 quota obligation whereas tier-1 obligations could never meet tier-2 requirements.

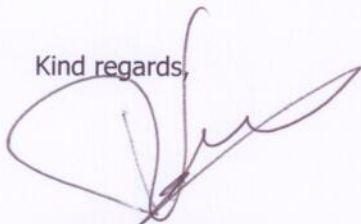
### ***Lessons learned from the voluntary market for renewables.***

Much like the El-cert system, the use of proper international electricity tracking systems is critical to the success of an international quota system. From our point of view the tier-1 and tier-2 certificates must be clearly distinguished from the voluntary Guarantee of Origin certificate. This is easily implemented and lessons can be learned from the current Sweden-Norway el-cert system. It has been proven through the voluntary market that transaction costs and operating costs of the certificates making up an electricity tracking system are very low. These transaction costs would also decrease, as volumes increase under an international quota system, helping in turn to further develop the fair competition between member states.

Our intention is to promote cost-effective support options for renewables and for the future of Europe and the benefit of the European electricity user. No support scheme is perfect but we would be happy to explore and develop our ideas further in search of the best possible option. We are specifically interested

in further exploring the pros and cons of this solution and other possible support schemes. We are open to discuss any and all possibilities with your staff about a path towards cost-efficient renewables implementation.

Kind regards,

A handwritten signature in dark ink, appearing to read 'Peter Niermeijer', written over the 'Kind regards,' text.

Peter Niermeijer  
Secretary General of RECS International