

COVER NOTE on the ACER and CEER Reflection on the EU Strategy to Harness the Potential of Offshore Renewable Energy for a Climate Neutral Future

11 April 2022

ACER and CEER welcome and commend the European Commission's strategy to harness the potential of offshore renewable energy for a climate neutral future. This is a key issue for the future decarbonisation of Europe's energy system; an issue of long-standing priority made even more urgent by recent events.

Large-scale deployment of offshore renewables is expected to give rise to hybrid offshore systems and so-called meshed offshore networks; these provide completely new challenges as well as opportunities and thus would benefit from careful consideration. As such, putting the strategy to life requires a proper technical, economic, and regulatory framework to facilitate efficient development of these systems.

In the accompanying document, ACER and CEER provide their common view on the development of such offshore hybrid systems. We broadly support the offshore bidding zone model as underlined in the European Commission's strategy due to its many advantages in terms of efficient market functioning. However, ACER and CEER acknowledge that there are several considerations to take into account for offshore bidding zone models to be implemented in the most appropriate way.

One of these considerations, which is worth specific emphasis, is an issue which seems to be a source of concern for some developers or investors, namely, whether hybrid system offshore bidding zones might lower revenue expectations compared to projects onshore. The offshore bidding zones in combination with the requirement to offer minimum transmission capacities to the market (also known as 'the 70% rule') implies that renewable generation offshore competes on an equal footing with cross-border flows should there be congestion, i.e., insufficient interconnection capacity to accommodate all power flows.

This may seem at first glance to potentially impact revenue expectations for offshore renewables. Indeed, a debate seems to be emerging whether in order to alleviate this perceived challenge, one might consider exempting such offshore hybrid systems from the aforementioned 70% requirement (thus not allowing competition with cross-border flows) or to allocate a share of so-called congestion income to offshore renewable generators that would otherwise accrue to system operators for the purpose of appropriate grid enhancement (the latter to alleviate future congestion).

ACER and CEER acknowledge the need for appropriate levels of revenue certainty to attract investments at scale. However, arguments around the non-suitability of the 70% requirement for future offshore hybrid systems as well as the considerations about allocation of congestion income for such purposes would also need to be considered. Whilst the latter is extensively dealt with in the accompanying document, further reflections on the 70% requirement are elaborated further below.

Not abiding by the 70% rule implies re-introducing priority dispatch; a concept the EU moved away from with the recent adoption of the Clean Energy Package. Whilst priority dispatch for

offshore wind generation might facilitate quicker offshore development, it should be noted that priority dispatch would imply that offshore generation gets an undue preference over generation sources onshore (sources that could be equally non-carbon emitting, such as, onshore wind, hydro, solar power, or nuclear generation), thus hampering overall competition and a level playing field amongst European electricity producers. This in turn leads to withholding the cheapest electricity on average from reaching consumers.

As such, if policymakers see a need to provide further revenue certainty to attract the investments targeted, ACER and CEER would suggest other measures like market-oriented support schemes and/or seeking higher guarantees in terms of interconnection capacity availability.

More information about the ACER/CEER position on this matter can be found in the accompanying document.