

CEER response to the Commission Communication on Renewable Energy: a major player in the European energy market COM (2012) 271

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The Council of European Energy Regulators (CEER)¹ broadly welcomes the European Commission's recent Communication on Renewable Energy (RES) and its recognition of the importance of regulatory frameworks in achieving consumer protection, supporting investor confidence and removing market distortions.

European energy regulators agree that mechanisms to deliver and develop RES and associated innovation must be undertaken in the **most cost-effective manner possible**, irrespective of whether a target- or outcomes-oriented approach is ultimately adopted. In order to build on the considerable momentum already achieved in RES deployment, and to avoid a more costly transition to a low carbon Europe (a cost ultimately borne by consumers), CEER believes there is a compelling need for **clarity over post-2020 arrangements** as soon as possible.

We welcome the presentation of options for discussion within the Communication and **confirm our intention to participate fully in (the) appropriate debates**, both from a wider regulatory basis and in support of formal ACER activities.

In this context, we would like to draw the Commission's attention to the CEER Conclusions Report: *Implications of Non-harmonised Renewable Support Schemes* ([C12-SDE-24-04b](#), published alongside this response), which reviews a range of evidence on the effects that differences between support schemes may have on investment decisions and market functioning.

¹ CEER is a not-for-profit association in which Europe's independent national regulators of electricity and gas voluntarily cooperate to protect customers' interests and to facilitate the creation of a single, competitive, efficient and sustainable internal market for gas and electricity in Europe.

CEER is also intending to update its previous surveys of the *Status Review on Renewable Energy Support in Europe* which will provide the Commission and ACER with an up to date and robust picture of RES support schemes across Europe.

The following response is presented from a regulatory perspective and without prejudice to political decision-making. We focus our comments on those sections of the Communication related to regulatory issues:

- 1. Market development and costs;**
- 2. Improving RES support schemes;**
- 3. Boosting cooperation and trade;**
- 4. Electricity market, infrastructure investment and renewables;**
- 5. Consumer impacts**

We explain these areas in greater detail below and overleaf.

1. Market development and costs

Due to the considerable financial resources deployed to support renewables, RES technological maturity has been accelerated and learning rates improved. This has had the effect of achieving lower costs and CEER agrees that this should result in a declining level of subsidies overall and the closer integration of renewables into the market.

European energy regulators are not best placed to comment on technology development, research or innovation issues, but CEER notes the importance of adopting a differentiated approach to RES technology subsidy in order to ensure that the development of technologies not currently suitable for large scale deployment (but necessary in the future to deliver long term carbon and cost savings) is encouraged.

In relation to the role of markets, we note that the Commission's Communication could go further in linking the EU Emissions Trading Scheme (EU ETS), energy efficiency and RES as interrelated issues. We believe that the neutrality of technologies should be a basic principle in market design, and over time see the potential for a well-functioning carbon market to supersede targets in attracting investment and driving *emissions reduction* activity across Europe.

2. Improving RES support schemes

CEER's Conclusions Report: *Implications of Non-harmonised Renewable Support Schemes* finds that, across the range of factors affecting RES development and deployment, **support scheme stability** was felt to be the most important. On the issue of **support scheme harmonisation**, the report reveals a broad cross-section of opinion amongst respondents.

Those respondents in favour of the status quo felt that non-harmonised support schemes were beneficial in terms of supporting an appropriate match between RES technology type and Member States' renewable generation potential, in addition to allowing Member States to tailor support schemes towards regional supply chain and workforce skills development needs.

Those in favour of a harmonised system presented their case from a well-functioning, internal market perspective, arguing that continued non-harmonisation would add unnecessary complexity and cost to investment decisions, leading to a higher cost of capital and less cost-effective solutions. The consumer benefits of harmonisation were also noted, including improved access to competitive tariffs and a standardisation of RES subsidies across consumer bills.

A move to widespread harmonisation over a short timescale was felt to be challenging, and a number of respondents indicated their support for a phased approach, involving '**regional harmonisation**' (defined on the basis of geographical adjacency, quality of trans-boundary transmission linkages and/or support scheme similarities) and supported by EU guidelines.

This regional approach – which has precedent in existing structures such as the North Seas Countries Offshore Grid Initiative (NSCOGI) – allows Member States to maximise the benefits and minimise any unintended consequences of harmonisation, and may offer a **transitional approach between 2020 targets and post 2020 arrangements**.

In considering any changes to support schemes, it is important this is done in a way which avoids unnecessary costs to consumers. The cost of capital is a substantial driver of the costs of most renewables, so risks should be carefully considered. In general, respondents to our consultation found the structure of support schemes to be relatively unimportant, so questions of harmonisation should not focus on the type of scheme. Issues around the **stability** and **extent of support** were felt to be of greater importance, and more or less market oriented approaches are possible within each of the main categories of support scheme (Feed-In-Tariffs, green certificates etc.).

The Commission's Communication on Renewable Energy (RES) supports a position of greater consistency between national support schemes in order to support RES and avoid fragmentation of the Internal Energy Market (IEM). CEER believes that:

- Over the short-medium term, development and implementation of network codes is likely to deliver progressive harmonisation, but with a range of agreements and common positions over country-specific elements needed to support this (such as governing procedures, access arrangements, connection timings and charging), all of which will require significant EU involvement in helping to overcome administrative challenges. Any move towards greater harmonisation of RES support schemes should be considered in this broader context;
- Over the longer term (post 2020), the greater integration of renewables within the market should reduce the need for RES subsidy support (thereby lessening the impact of non-harmonised support schemes).

3. Boosting cooperation and trade

CEER recognises that issues of co-operation and trade in RES are not exclusive to Europe. In particular, the potential for alignment of European markets with adjacent non-EU countries and Southern Mediterranean energy sources is relevant to both the market development and harmonisation agendas. However, CEER also notes the considerable infrastructure challenges (and therefore costs) associated with connecting Southern Mediterranean countries with Europe.

4. Electricity market, infrastructure investment and renewables

As a general principle, CEER supports the Commission's position that renewable energy should be gradually integrated into the market with reduced or no support and should, over time, contribute to the stability and security of the grid on an equivalent basis to conventional electricity generators.

As renewables assume a greater proportion of the energy mix, CEER's view is that greater market integration can be achieved (particularly in the case of non-programmable sources such as wind and photovoltaic energy) through implementation of the Third Package and development of effective **market design principles and mechanisms** (e.g. by moving gate closure times closer to real time), a sufficiently high degree of liquidity in intra-day markets (in order to allow balancing of positions) and improved interconnection and transmission capacity (via the Energy Infrastructure Package- EIP)

In order to achieve market integration of renewables, these market design solutions will need to be developed alongside focussed efforts to manage network constraints, unit deployment schedules and efficient operation of ancillary services.

In support of the EIP, CEER sees a clear role for regulators in the creation of an appropriate incentive structure for network developments and modernisation, in order to accommodate variable and decentralised renewable energy sources. Cooperation and integration of network planning should lead to a coordinated approach for an optimised EU-wide network system, and help underpin complementary developments such as smart grids and Demand Side Management (DSM).

CEER has been working on generation adequacy and associated issues related to capacity mechanisms for some time and ACER is proposing to work on this topic going forward. We consider that the design of any capacity mechanism needs to be carefully considered to support cross-border trade and encourage sources of flexibility such as demand side response. We would welcome further dialogue with the Commission on this important market design issue.

5. Consumer impacts

CEER is concerned that consumer affordability is insufficiently addressed in the social component of the accompanying Impact Assessment. As regulators with consumer protection responsibilities, we would wish to see a greater acknowledgement that delivering a secure and sustainable European energy system will involve costs to consumers, and would seek assurances that that these costs have been fully considered² (alongside proposals for mitigation) in future deliberations.

² For example, social acceptance/resistance to onshore wind energy can avoid/incur increased costs