Key issues in current EU renewable energy policy

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Issues

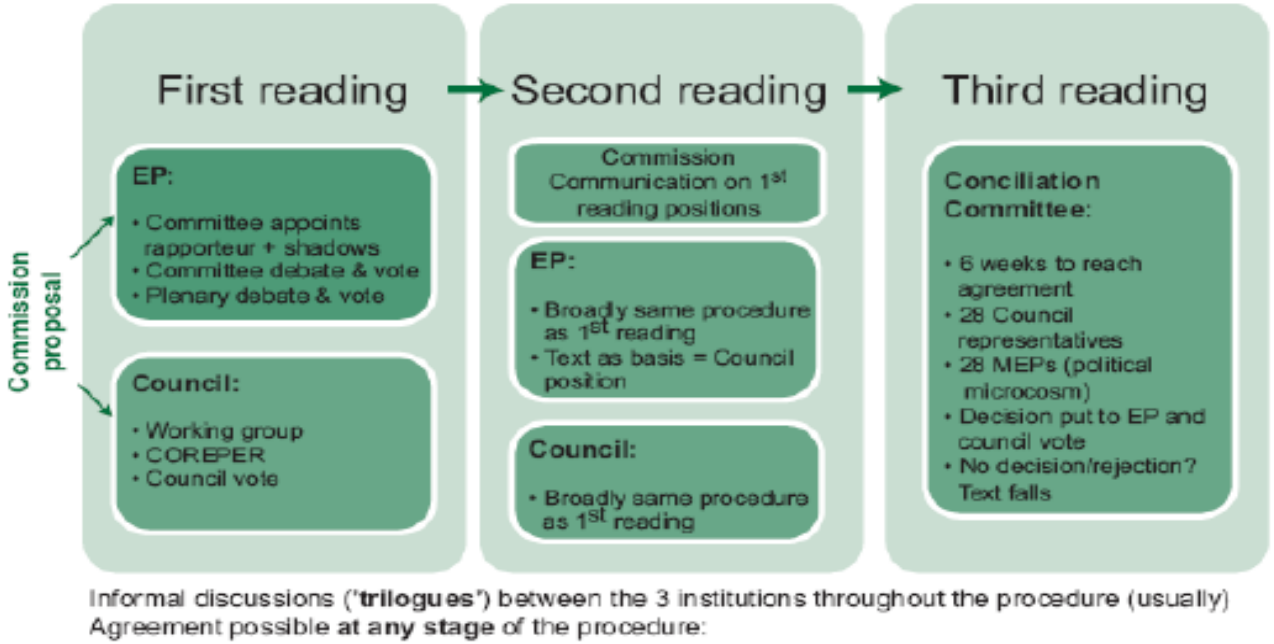
- **Positions on target figures** for RED II now, before trilogue: 27%/(30%) (COM), 27% (Council) and 35% (Parliament)
- **Should there be targets, and should they be binding**? On whom? how?
- Financial support for RES-E; tenders (technology neutral, technology-specific)
- Priority dispatch
- **Coal** between exit and lock-in
- **Renewable self-consumers and RE communities**

First RED II plans are drawn up in a new context

- 2010-2014 mark a shift in the political mood:
- Financial crisis leading to cutbacks in RES-support esp. in several Eastern and Southern Europe
- Fall in electricity demand, crisis of fossil-nuclear incumbents
- “Excessive” FIT-induced boom of expensive PV in DE, IT, FR, CZ
- Pro-nuclear shift in Con-Lib German govt 2009 leading to nomination of pro-nuclear/fossil, anti-renewables politician (Oettinger) for the position of EU Energy Commissioner
- Renationalisation of policy making (e.g. using Europ Council unanimity rule Oct 2014: Cameron+Visegrad), setback for community method (co-decision EP-Council, majorities)

First RED II plans are drawn up in a new context 2

- In this constellation, a new storyline on energy transition emerged, strongly promoted by leading energy incumbents (Magritte group in 2013) which fell on fertile ground among many political actors and industry assns: that the transition is a huge financial burden; that intermittent generation threatens security of supply (or at least ”reliable” fossil and nuclear generation); that it will drive up prices to the point of affecting European competitiveness and lead to Europe’s deindustrialisation. “ETS only”
- Oettinger was representative of those trends (not so Climate Commissioner C. Hedegaard, but Oettinger prevailed).
- At one point, Oettinger considered terminating financial incentives for RES-E altogether at EU level, arguing “ETS only” was best
- (In 2012-13 he proposed that the German government should stop RES-E deployment altogether)



Quelle: Dörte Fouquet (2018) The European Energy Union: the pathway to system change - status quo before Trilogue, Vienna, Feb 1

Target size: Commission

- In Jan. 2014, the Commission proposed a climate and energy framework for 2020-2030, which included first elements of a renewable energy directive. There it set down a target of “at least 27%” with no mandatory targets for MS, reflecting the anti- renewables position of Commissioner Oettinger (Bürgin, 2015; Solorio/Bocquillon, 2017) while Commissioner Hedegaard (DG Climate) argued for stronger and binding national targets (Dyrhauge, 2017)
- The European Council in the same year confirmed both points
- Even though Juncker (start: 1 Nov 2014) viewed RE more positively than Barroso II COM, the Oct. 2016 COM proposal for a new RED II did not change the 27%s target which meant reducing ambitions in this field compared to then current policy (RED I). COM proposed to make up for a absence of national targets by the Governance Regulation
- COM VP for Energy Union Sevcovic in late 2017 (CK) expressed however his sympathy for an “at least 30%” target, particularly in light of the cost overestimations by the COM in its impact assessment (see e.g critique by Agora Energiewende 2017) and recent price drops for RES-E

Target size: Council

- The **Council** position of "27% at EU level", lets MS set own targets; goes back to a veto threat by Cameron in the European Council in Oct 2014, supported by the Visegrad countries (PL, CZ, SK, HU), rejecting any higher figure (Solorio and Bocquillon, 35). NB: before the 2015 Paris Agreement
- This was to signify a marked slowdown in the energy transition effort
- The 27% target – non-binding on member states, but binding at EU level - was reaffirmed in the Council pre-trilogue decision in Dec. 2017 - two years after the 2015 (Dec.) Paris Agreement which called for stronger efforts, ratified by all EU MS
- For the upcoming trilogue, several member states have expressed their support for greater ambition on targets (Source:)New: German govt parties recently proposed to strengthen the country's national commitment to RES-E deployment from about 50% (47.5-52.5%) by 2030 (EEG 2017) to 65% in that year (Coalition Agreement 2018). This would about double the speed of German deployment (2017: 36%) compared to EEG 2017 plans
- Good statistics on EU RE?

Target size: European Parliament

- The ITRE committee of the European Parliament called for much more ambition, exposed COM miscalculations (overly high cost estimates for RE, e.g. PV €79-148/MWh; carbon price of about €40; Turmes 2017, 470-71; Agora Energiewende 2017) plus recent price drops to justify a target of at least 35% as economic optimum
- The EP plenary voted this figure as a minimum for the trilogue in January 2018
- In its vote of 28 Nov 2017, the ITRE committee of the EP no longer insisted on national binding targets "in a spirit of compromise" (RED rapporteur Blanco Lopez, who would personally have preferred a target of 40%; Euractiv 2017)

What is at stake?

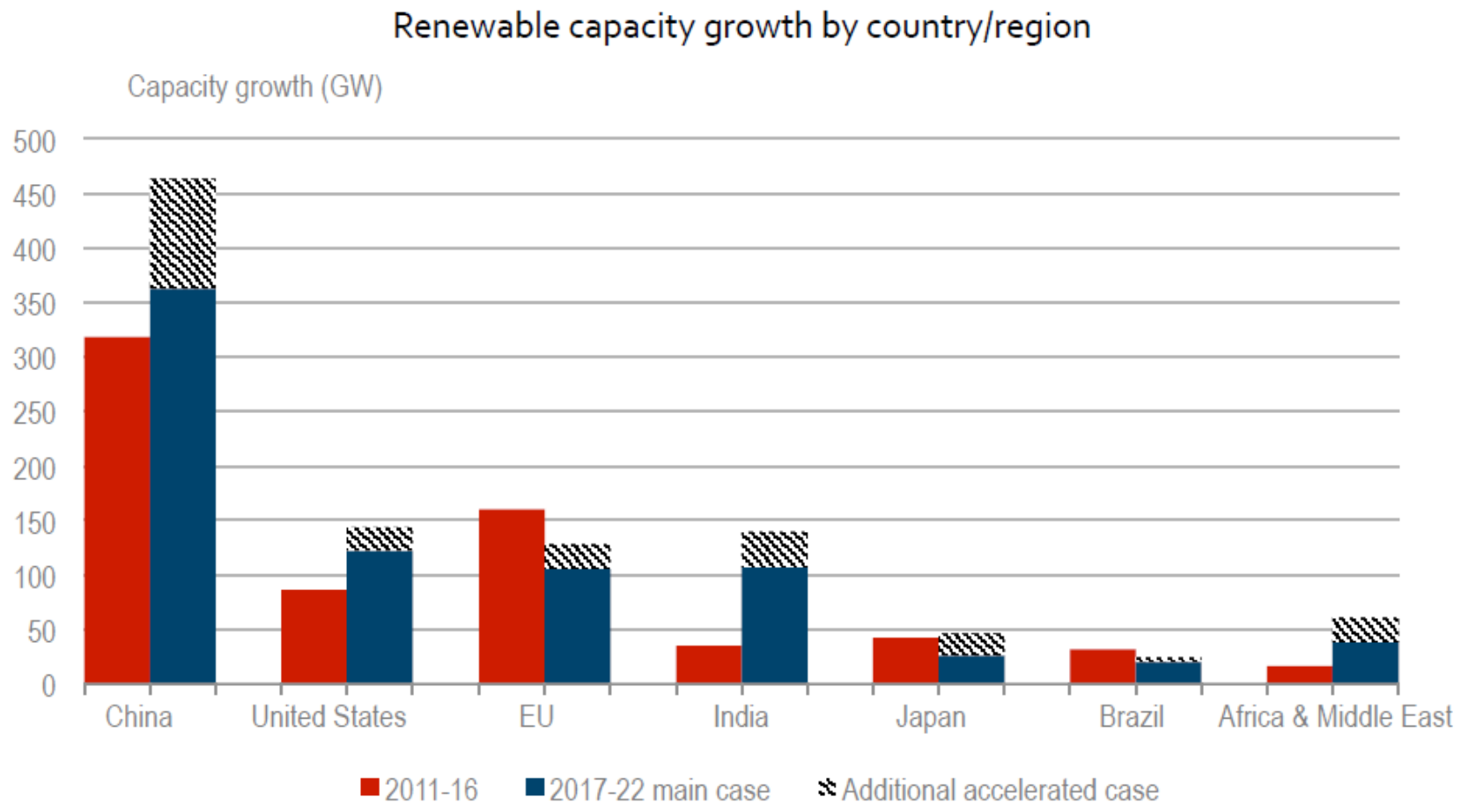
- A 27% target would mean 7% additional growth of RES (not RES-E) between 2020 and 2030, after % 2010-2020 (assuming 2020 goals will be achieved collectively) and possibly up to 50% RES-E
- A 30% target would mean 10% of additional RES growth and lead to an estimated 50%+ RES-E share (from a 2017 30% RES-E share) by 2030 (Agora EW 2018 and Sandbag, 37; Fraunhofer ISI et al., 2018; see also CAN Europe, 2017)
- A 35% target would mean 15% additional RES growth (more than double the Council goal) and an estimated share of 65% RES-E by 2030 (Agora EW and Sandbag 2018, 46)
- "By 2030, wind and solar power production could either double or triple compared to 2017, depending on the outcome of the negotiations" (ibid.) (biomass is not expected to grow)
- 65% RES-E by 2030 as a national goal is also mentioned in the German Conservative-Social Democratic (CDU/CSU-SPD) coalition agreement of March 2018 (Koalitionsvertrag 2018, 71)

Renewables share as percentage of gross electricity production

Figure 6

EUROSTAT data to 2015, 2016 and 2017 are own calculations

Source: Agora Energiewende and Sandbag (2018) The European Power Sector in 2017; p.11



Source: IEA, cited by Fouquet (2018)

No binding national targets? COM and Council

- Binding national targets are commonly viewed as greatly strengthening investor confidence; first introduced in 2009 (in RED I). Indicative national targets in 2001. No national targets in 2019?
- COM in 2014 invented the formula of an overall target “binding at EU level”
- A joint effort by French and German for a “gap filler mechanism” (member states failing to achieve their targets would pay into a fund) to ensure a somewhat evenly shared effort by MS foundered on COM resistance
- COM idea is to let MS set own targets and to rely on Governance Regulation (highly bureaucratic, complex system of reporting by MS on planned policies and progress) to put pressure on MS to achieve the 2030 collective target, in particular from civil society (Genard, 2018, 5)
- If this pressure does not work, COM plans to develop new instruments to be put into place after 2023 if collective target at that point seems out of reach (Concas, 17) in the forthcoming Regulation Governance

In the absence of national targets: will growth paths diverge even more?

- In recent years, RES-E deployment has been substantial only in a few countries. From 2014-2017, Germany and the UK were responsible for 57% of all RES-E growth. Even there this was most likely due to a last-minute rush by developers to build their projects before tenders kick in (Guardian, 2018)
- The other 26 MS together realised 43% RES-E output growth during those three years (several already reached their national targets for 2020). Some have problems with higher financing costs, particularly in Central and South-Eastern Europe. 15 MS had no capacity additions for wind power in the first half of 2017, only five surpassed the 100 MW mark (Agora Energiewende and Sandbag, 2018, 11-12)
- What will MS propose? (draft plans due at end of 2019?)

Somewhat binding targets for MS: The position of Parliament

- Parliament in its proposal for trilogue (first reading, 17 Jan 2018) added “and national targets” to “Union binding overall target”
- These are not binding, with a similar ambivalence as COM (European Parliament 2018, Amendments 108-111). A bit more than purely indicative
- Am. 111 „MS shall set targets“. If not adding up to EU overall target, MS not achieving their fair share (Annex Ia) shall increase their target accordingly (Check also reference to art. 27 of Regulation Governance, not yet adopted)

Financial support for RES-E: tenders

- **Commission:** leaves this central issue in Article 4 of RED II mostly to recurring references to 2014 State Aid guidelines reflecting philosophy of DG Comp
- Main instrument of Guidelines and thus of COM proposal: technology neutral tenders with bidding for market premiums, very limited possibilities for tech-specific tenders (Fouquet 2018, 10), thus preference for currently cheapest technology.
- In this way the COM would finally achieve what the "neoliberals" had failed to achieve in 2001 (Commissioner Papoutsis) and 2008 (proponents of trading flexibility, led by UK) (Solorio and Fairbrass, 2017): A limited kind of anti-FIT harmonization of RES-E support, technology-neutral

Financial support for RES-E: Tenders 2

- **Parliament:** Jan 2018 proposal (Amendment 116) transfers content of state aid guidelines on tenders (Sec. 3.3.1 and 3.3.2.1) expressly into text of Art. 4 of RED II, with little modification; but now it is co-decision legislator who is author!): Tech-specific tenders allowed because of long-term potential of a technology, need to diversify energy mix etc. (same as COM)

  But EP also requires analysis by COM, and report to EP and Council, of how tenders achieve goals every three years: cost reduction? Technol. Improvement? Realisation rates? Small actors and local authorities? Amendment 124)

  Mandates COM (amendment 125 and 126) to review the 2014 Guidelines “to incorporate fully the general principles laid down in Art. 4 of this directive”. To affirm superiority of co-decision legislator? NB: 2014 Guidelines set to expire in 2020?

Other support measures not very controversial

- COM: MS shall open support schemes to generators from other MS at rate of 10% starting in 2021/15% after 2026
- EP: 8%/13%; exemptions possible
- COM: Prolong RED I (2009) cooperation mechanisms to 2030 and beyond
- EP: COM should provide active support

NB: First case of RES-E statistical transfer in 2017 (Luxemburg buys surplus from Lithuania). Joint support system only NO-SW; joint project: DE-DK joint solar tender (Oxford Institute of Energy Studies, 2017?)

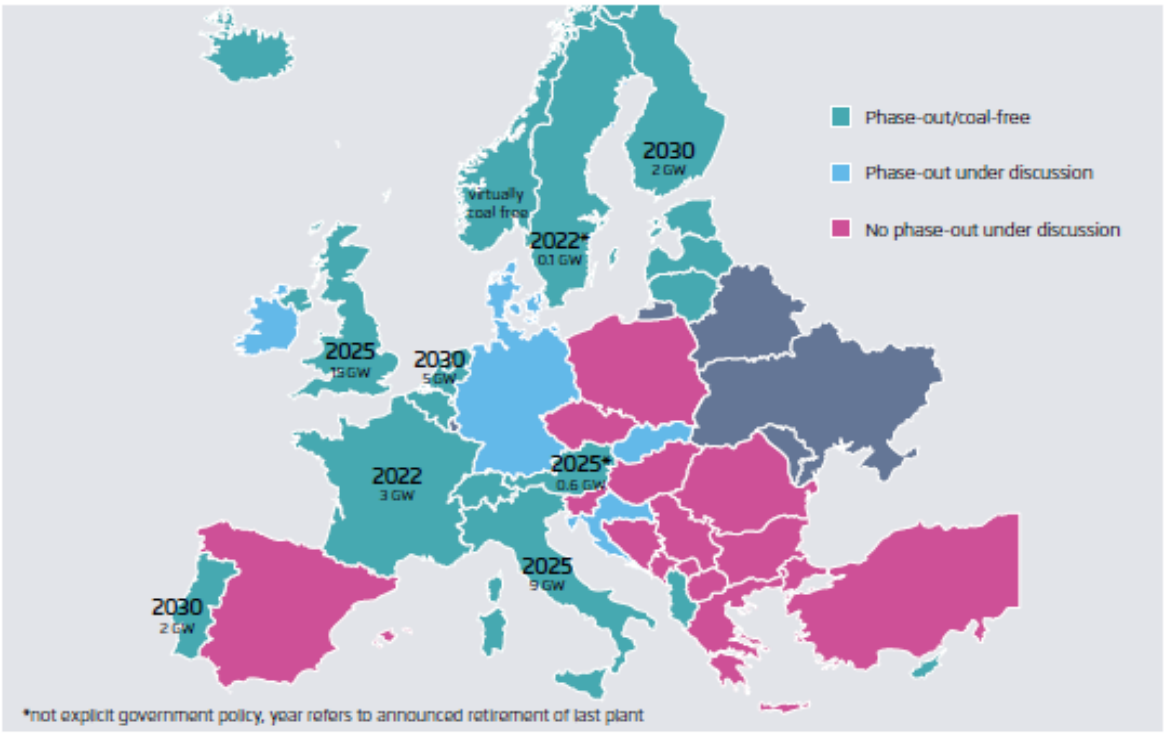
Termination of priority dispatch

- Commission: Priority dispatch to be abolished for all RES-E except
  - for past commitments from support schemes
  - for new installations below a certain size
- Council: Member states may allow PD below certain threshold values (Buck 2018,13)
- Parliament: Draft report by Karins is even more stringent: even existing PD privileges should be abolished and compensated (Buck, ibid).
- ITRE voted on 21 Feb 2018 to phase PD out from 2020 onwards and to replace it by better rules on curtailment (RE would be curtailed last and properly compensated) (Wind Europe, 2018); exceptions only for very small installations and demonstration projects (Deutscher Naturschutz-Ring DNR 2018)

Coal between phase-out and lock-in

- One of the big obstacles to further RES-E deployment in several MS is coal-fired (often excess) generation capacity
- Several EU countries have no coal-fired generation. Several announced coal phase outs: France and Sweden for 2022, Orsted/Dong DK for 2023, UK, Italy, Ireland and Austria for 2025, Finland, Netherlands and Portugal for 2030 (Europe Beyond Coal, 2018) SEE NEXT SLIDE
- Coal phase out remains controversial in Germany, Spain, Poland, Czechia, Bulgaria, almost all other Eastern European countries
- The phase-out of coal-fired generation, urgent from decarbonisation, overcapacity/congestion and clean air perspectives, will be affected by the following measures
  - Reforms of carbon pricing (ETS, national measures)
  - Implementation of Industrial Emissions Directive as updated in 2017 (BREF)
  - Criteria for capacity payments (but affects little generation? New plants?)
  - “No region left behind” program of Dec 2017

Coal phase-out years and operational capacity Figure 22



Europe Beyond Coal campaign 2018

Source: Agora Energiewende and Sandbag (2018); p. 23

Reform of carbon pricing

- ETS reform of Dec 2017 should reduce the certificate surplus and lead to higher certificate prices
- The reform will also encourage national initiatives on carbon pricing or RES-E deployment by putting an end to the “water-bed effect” (whereby reducing emissions in one member state enables higher emissions in other member states) through cancelling a corresponding number of certificates
- But the reform is unlikely to induce a stable, price- induced switch from coal to gas before 2030 (Agora EW/Sandbag 2018, 35-36) – the expected price increase is too small. What will it do for RES-E as it becomes competitive?

Application of 2017 Industrial Emissions Directive's BAT standards

- 2017 IED brought new best available technology standards for existing fossil-fired power plants by 2021 ("BREF")
- This standards update passed with an extremely thin majority in the Council (Germany joined opposition by Visegrad countries plus others)
- IED 2017 requires important clean air investments for most coal plants (DNV-GL estimate: €15bn.); substantial closures expected (one third?) (IEEFA 2017)
- Also, COM has become more determined recently not to tolerate air pollution beyond legal limit values (see dieselgate and driving bans)
- In the meantime, Poland and Bulgaria have challenged IED 2017 BAT standards before the Court (Agren, 2018)
- A similar lawsuit was initiated by owners and operators of German lignite mines and power plants (EU Umweltbüro 2018)

Capacity payments for coal plants (for keeping capacity on standby)

- **Commission** proposed (Market Design Regulation proposal in Clean Energy Package 2016) to ban MS capacity payments to both hard coal and lignite-fired plant (i.e. payments for operating on standby mode). It would limit such payments to plants achieving an emission performance standard (EPS) of 550g carbon/kWh, a standard out of reach for coal and lignite plants
- The Commission also proposed a 5 year derogation for existing plant (Sandbag 2017) – these may receive payments even if they do not meet the EPS
- This has to be seen in the context of widespread overcapacity in the EU, the need to decarbonise and to clean up air pollution, the reluctance of coal generators to retire these plants early (as needed under the Paris Agreement) and the tendency of govts to yield to incumbent (operator and union) pressure for subsidies

Capacity Payments 2

- **Council** voted on 18 Dec 2017 to allow capacity payments for existing coal/lignite-fired plants not meeting the EPS until 2030 (Agora EW 2018, 36) - or is it 2035? (Buck 2018, 14), and to require the EPS only for capacity payments to new coal plants going on stream after 2025. Carbon lock-in?
- **Parliament** (Karins report, 2018) would strengthen the COM position on a 550gr carbon/kWh EPS: to be applied to capacity payments from 2020 onwards, immediately to new installations, and would introduce additional restrictions on capacity payments. Strong resistance from Polish MEPs (Buck 2018, 14; WindEurope 2018)

Capacity Payments 3

- In early 2018, the Commission approved the Polish capacity mechanism, disregarding the restrictions laid down in its own 2016 proposal governing capacity mechanisms in the Clean Energy Package (550g EPS)
- The value of the subsidies were estimated at 6bn Euros by WiseEuropa for the next ten years
- However, the Commission recognised that the scheme can only be applied temporarily and will be dependent on the outcome of the Clean Energy Package legislation (CAN Europe, 2018)
- Plants on standby generate little – how important is issue? It adds to coal lock-in

“Just transition” for Europe’s coal regions

- In Dec 2017, COM set up EU platform/regional policy for the EU’s coal regions totalling about 185.000 jobs in coal mining (European Commission, No region left behind, 2017)
- This seems a more direct way to address the issue of acceptance of coal phase-out than capacity payments and similar deals which are used for this purpose - such as Germany’s payments to redundant lignite-fired plants supposedly on standby for maintaining grid stability - especially at a time of excess capacity (Clean Energy Wire, 2018; Energy Transition (2018)

Renewable self-consumers and renewable energy communities 1

- Potential as estimated by CE Delft (2016): almost half of European households could become active in the generation of renewable electricity, and
- up to 83% if demand response, storage and electric cars are included (cited in Josh Roberts, 2018)
- The size of the potential depends on the criteria for eligibility and on privileges

Renewable self-consumers and renewable energy communities 2

COMMISSION

- Articles 21 and 22 of the RED II COM proposal (European Commission, Feb. 2017) regulate those issues in a few sentences
- “Member States shall ensure that self-consumers” are exempt from “disproportionate procedures and charges that are not cost-reflective”
- that they receive a remuneration which reflects the market value of the electricity fed in
- that they shall not be considered as energy suppliers if their feed-in volume does not exceed 10MWh per year (households) or 500MWh (legal persons) still in COM text as cited by EP Jan 2018 (but Fouquet 2018, 16: “has been removed”??)
- that this status is also granted to joint self-consumption for consumers in multi-apartment block or in same distribution system

Renewable self-consumers and renewable energy communities 3

COMMISSION

- That renewable energy communities (SME or not-for-profit organisation) enjoy same exemption as above regarding procedures and charges (art. 22)
- Members must be majority local owners (including municipalities or SMEs operating RES-E)
- “Without prejudice to State Aid rules, when designing support schemes, MS shall take into account the specificities of renewable energy communities” (=vague)
- Size limit for RE Community (Art. 22e): “The community has not installed more than 18MW of renewable capacity for electricity, heating and cooling and transport as a yearly average in the previous 5 year” (optional criterion!)

Renewable self-consumers and renewable energy communities 4

MEMBER STATES/COUNCIL?

- **Council position: unknown** (I could not access docs on Compromise Position or on General Approach)
- Germany: FIT used to encourage small ownership, but since the introduction of tenders by EEG 2014, the activity of coops is declining sharply (Solarthemen?)
- The German govt failed so far to activate the 2014 State Aid Guidelines (European Commission 2014) de minimis rule - allows member states to exempt small wind installations (6 turbines and 18 MW) from the tender obligation. As to PV, under EEG 2017 so far only 600 MW (out of a total annual PV target of 2500 MW) are put out to tender, the rest are still compensated via EEG tariffs
- On the other hand, there is also a verbal commitment in German 2018 coalition agreement on encouraging RES-E deployment by active citizens and local communities (Koalitionsvertrag, 73)

Renewable self-consumers and renewable energy communities 5

PARLIAMENT

- While COM seems to treat this as an issue of non-discrimination, **Parliament** is enthusiastic about these developments, believes in vast potential to be mobilised for energy transition, due to stronger motivation than many incumbents (also incentive for incumbents who may lose business if they do not participate in RE transition)
- EP (2018) Amendments 121 and 195 ask member states to take into account the specificities of renewable energy communities and self-consumers *when developing support schemes for them so they can compete on an equal footing* (NB: power struggle with DG Comp?)
- (EP 2018) states that MS shall ensure self-consumed RES-E is exempted from any charge, fee, or tax (am. 179); that electricity fed into the grid will receive remuneration at least equivalent to the market price and may take into account the long-term value of such electricity to the grid, the environment and society (am. 182)

Renewable self-consumers and renewable energy communities 6

PARLIAMENT

- Am. 185 states that MS shall assess existing barriers to/development potential of self- consumption and actively **set up an enabling framework** for it, including easier access to finance and incentives for creating opportunities for self-consumption by tenants
- Similar treatment is extended to renewable energy communities (amendments 187-196)
- Places great faith in the transformative potential of self-consumption and RE communities to accelerate energy transition
- Such regulation could represent a functional alternative to feed-in tariffs (which by then may no longer exist except *de minimis*). Likely to be applied unevenly in different MS
- EP challenges DG Comp on support schemes for self-consumers/ for RE communities (and on tenders) (Turmes 2017, 466-67)

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