

Recommendations for EU Support for Renewable Energy

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Introduction

As a part of the Energy and Climate Change package, the EU and EU Member States (MS) have embraced ambitious targets for the development of renewable energy.

IFIEC Europe supports the use of competitive renewable energy to mitigate climate change, to improve energy security and to reduce dependence on imported energy, with a cost effective support and more input in research. However this may not endanger the global competitiveness of European Energy Intensive Industry (EII).

Increasing RES-E generation is now associated with increasing financial support to RES-E generation which burdens consumers with huge costs and weakens Europe's global industrial competitiveness with respect to industry in other regions of the world which does not bear such costs.

Therefore reform is needed now. The EU should use some basic principles for any RES-E support, taking into account the existing best practices, avoiding over-subsidization and distortions in different MS and ensuring grid stability. Furthermore EU should allow the maintaining of exemptions from additional costs for EII in order to avoid carbon and job leakage and should cap the total amount of subsidies.

In most MS, RES-E is no longer a niche technology, but an important part of the energy supply. Accordingly, the support principles need to be revised, made more cost efficient and eventually be phased out. In fact, lessons could be learned from some MS support schemes, which when applied in the right manner incentivise the introduction of cost effective technologies without unnecessarily burdening industry with prohibitive costs.

Outline of the recommended framework guidelines

A system to support renewable energy production should meet the following considerations:

Maintain global competitiveness of EII

- Until renewable electricity is competitive, the cost impact of support schemes on consumers under competition should be limited and it should not jeopardize the global competitiveness of EII.

Cost efficient, digressive and temporary

- Any support of RES-E must be cost-efficient, digressive and temporary. Even then, it will lead to higher costs of electricity in the short and medium term as compared to the electricity from the conventional generation.

Costs are to be made transparent

- All the related additional cost elements should be properly specified, assessed and made transparent to the public.

Hardship regime must be allowed under State Aid Guidelines

- Industry exposed to international competition must be exempted from these cost increases. State aid rules must allow for hardship regimes.

Integration in the electricity market

- Since intermittent renewable electricity is becoming an important part of the electricity supply in most MS, it is important that renewable electricity be integrated into the electricity market. i.e. that RES-E operators act as much as possible like any other power producer as a market participant and respond to market signals and do not lead to market distortion due to priority access, needing extensive balancing and backup of the system.

RE products offered to match demand

- RES-E operators need to offer electricity products as per the scheduled demand profile of their customers. This ability can be achieved either by technology developments or by smart co-operations between different RES-E producers or between RES-E and conventional producers. Simply putting electricity into the grid whenever solar or wind circumstances are positive should no longer be allowed, especially with RES-E becoming the majority electricity source according to EU targets.

Ensure grid stability

- Current practice of giving priority access to renewable electricity coming largely from interruptible and unpredictable sources is straining the existing grids when there is abundant sun or wind. The peak and valley electricity injection resulting from these events endanger the grid stability and increase the risks of a black-out.

Optimize total cost (including transport, balancing etc.)

- EU should aim for the most cost efficient technologies, at most appropriate locations, taking into account diverging regional and geographical conditions (for instance distance to consumers) in order to avoid giving rise to unnecessary transportation costs to the end-user, thus securing overall cost-effectiveness. EU furthermore should make a cut off for technologies that are not yet mature for the market.
- Whereas cost-effective support mechanisms are part of the solution, promotion of the most geographically efficient technologies can only proceed smoothly when the European electricity market is tightly connected and harmonized. This is achievable in a longer term only. In the meantime a diverse, often sub-optimal picture will remain but should be minimized in scale and timing.

Average market price as a basis

- The support needs to take into account the average market electricity price. Then RES-E operators will have an incentive to sell electricity at times when the electricity market price is above the average, i.e. at times of high demand. Moreover, if producers of renewable

energy are incentivized to integrate their electricity efficiently in the market, price volatility and the need for extra back-up capacity will be reduced.

Research and innovation

- Current renewable electricity technologies are not compatible with an energy policy which results in clean, affordable and reliable electricity supply. Research and investments for innovation in flexible energy storage and generation as well as back-up systems should be stimulated to promote new technologies that are able to reduce volatility with the least possible costs.

IFIEC Europe represents energy intensive industrial consumers where energy is a major component of operating costs and directly affects competitiveness.