CEER consultation on the non-harmonisation of support schemes

Response from the European Wind Energy Association

Question 1: How significant do you consider the impacts of non-harmonisation of support schemes to be for the development of RES and RES technologies?

Negative impacts of non-Harmonisation:

Were grid (both connection and operation) and administrative procedures, and their associated costs, harmonised across the EU-27 then (see also answer to question 2) harmonising support mechanisms could favour the concentration of the production of wind power according to availability of the resource, and could potentially lead to lower costs.

In theory harmonisation could help enhance cross-border electricity market liquidity. But this potential positive effect is dwarfed by other, more prominent market distortions, such as market concentration, regulated prices, overall lack of market transparency and monitoring as well as insufficient transmission capacity.

Positive Impacts of non-harmonisation:

The 2009 Renewable Energy Directive gives EU Member States legally binding targets. Non-harmonised support mechanisms allow Member States to design their support mechanisms in order to meet their national target in the way they so wish and in the most efficient and effective way. Harmonising support mechanisms would reduce the flexibility currently available to Member States on how to meet their target.

In 2004 the European Commission highlighted that “the issues relating to compatibility of support mechanisms and the desirability of not distorting cross border trade are concerns which are secondary to the main objective of ensuring a certain level RES production in each Member State on the basis of individual national targets”\(^1\). This was five years before the EU adopted the 2009 Renewable Energy Directive, including a legally binding renewable energy targets.

Support mechanisms are developed according to the existing characteristics of individual markets. They therefore reflect what is feasible and necessary at an individual market level, and can lead to a more dispersed development of wind power installations across the EU. Member States have latitude when choosing a particular RES support mechanism according to technology and overall market maturity: the value and specifics of the support mechanism can be fine-tuned in accordance with existing energy market characteristics and desired technology support for nascent technologies or in particularly monopolistic energy market structures with large national incumbents.
Support mechanisms for wind energy need to take account of the fact that the wind resource varies, and costs vary, from project to project, region to region and country to country.

A harmonised support mechanism would result in EU consumers/tax payers in one country financing renewable electricity produced in another country without benefiting from improved competitiveness, job creation, GHG reductions and improved energy security.

**Question 2:** In comparison, how significant do you consider the impacts of non-harmonisation of factors other than support schemes, explored in this report (or in addition to those explored) to be for the development of RES and RES technologies?

The following issues have significantly greater distortions on the electricity market than the non-harmonisation of RES support mechanisms:

- the non-harmonisation of support mechanisms for non-renewable energy technologies;
- the non-harmonisation of administrative procedures and corresponding barriers and costs experienced by wind energy projects;
- the non-harmonisation of grid connection procedures and corresponding barriers and costs experienced by wind energy projects.

**Administrative procedures and corresponding barriers**

Based on the WindBarriers survey, the average administrative lead time in the EU is 42.32 months for onshore wind energy projects, and ranges from 18.06 months to 58.03 months.

Such differences across the EU results in different costs for developers which need to be reflected by support mechanisms.

**Grid connection procedure and corresponding barriers**

Once a project developer has secured the basic technical requirements (e.g. project location, sufficient wind resource, access to the site of the future farm), a grid connection application is sent to the system operator. A basic technical project is submitted to the Distribution System Operator (DSO), but can be transferred to the Transmission System Operator (TSO) if it requires a higher grid capacity (usually over 132 kV).

According to the WindBarriers survey, the EU average for grid connection lead time is 25.8 months for onshore projects, and ranges from 2 months to 46.6 months. Such differences across the EU results in different costs for developers which need to be reflected by support mechanisms.
Total Lead Time

Wind energy project developers need to obtain a building permit in order to install a wind farm and a grid connection as well. The total time taken to get the building consent and grid connection permits is called the total “lead time” of a wind farm. Based on the WindBarriers survey, the average total lead time in the EU is 54.8 months for onshore wind energy projects, and ranges from 25.88 months to 76.08 months.

The level of support is only one of the elements considered when making investment decisions in wind energy in a specific Member State. Other elements are very substantial and often influence the level of support.

The development of the grid is another key aspect. As explained in the CEER paper the success of RES in Spain is not only due to a good support mechanism, but also to favourable connection rules and a fairly developed network infrastructure – the same applies to Germany and Denmark. Furthermore, operational routines applied by the TSO have a considerable impact on curtailments and overall production costs: best practices such as sophisticated forecast tools or the dedicated RES control centre CECRE in Spain help reduce forecast errors and overall downtime of wind power plants.

In addition, grid connection costs differ and connection procedures are by no means harmonised. In Denmark and Germany offshore wind producers do not have to pay for their grid connection. In most other countries the grid connection costs need to be covered by the developer: either by paying for connection to the nearest point of connection (so-called shallow connection regime), or in other countries by covering a locational charge when getting connected to the grid (so-called deep charging regime – connection costs covered to the nearest point of connection and an additional down-payment for overall grid reinforcements). The differing rules therefore need to be reflected in the level of support provided. Many elements are linked to the functioning electricity markets. A dysfunctional internal electricity market and low interconnection levels are very much hampering the development of renewables, as acknowledged in section 1.2.2 of the paper.

Current market constraints such as low overall liquidity in electricity markets, particularly on the cross-border level, and insufficient transparency and monitoring of market operations have emerged from market rules that have been developed for conventional generating technologies, based on trade between large vertically-integrated power companies. Despite subsequent EU liberalisation packages, the level of liberalisation of European electricity markets remains low with large incumbents, high market concentration and regulated prices being the rule rather than the exception with a large variance between Member States. Certain divergences in the functioning of the electricity market create distortions in investments among Member States. These include:

- Balancing regime (RES producers in Ireland and Denmark do not pay for balancing costs unlike other RES producers, e.g. in Spain);
- Ancillary services which are not treated the same in different Member States: in certain cases they are an obligation for producers; in others the producers can be remunerated via an ancillary services market.
- Subsidies to fossil fuel and nuclear power generation.

**Question 3:** Please place the factors of non-harmonisation (whether explored in this report or not) in order of materiality/significance. Please separate non-harmonisation of support schemes into type, level, structure and stability of support as explored in this paper (see table 1).

In the view of EWEA any well-functioning support mechanism should meet the following criteria:

1. Compatibility with the polluter pays principle;
2. High investor confidence, in particular to attract finance to the sector;
3. Simplicity and transparency in design and implementation;
4. High effectiveness in deployment;
5. Encouraging technology diversity;
6. Encouraging cost reduction through innovation and technology development;
7. Compatibility with the power market and with other policy instruments;
8. “Grandfathering” to safeguard current investments, and to maintain investor confidence in future development;
9. Encouraging local and regional benefits, public acceptance and site dispersion;

**Question 4:** In your view, does this consultation document capture all major implications of non-harmonisation of support schemes? Are there additional impacts on investment decisions, market functioning or any other areas you consider relevant?

Investments made possible by well-designed support mechanisms help drive down costs and eventually enable to lower support levels. Nonetheless, the need and rationale for support mechanisms remains today. In the absence of an EU mechanism fully internalising environmental costs, support mechanisms are the best tool to counteract market failures which include subsidies to fossil fuels and nuclear and the lack of internalisation of external costs, in the electricity sector.

Overall, EWEA hopes that this consultation will help improve today’s rather lopsided discussion on the liberalisation of the power sector which at times attributes market distortions almost exclusively to the regulatory frameworks for the promotion of RES. This debate fails to acknowledge that RES power generation is disadvantaged compared to conventional power sources such as oil, gas, coal and nuclear power sources, which were developed and introduced through state subsidies and levies on electricity bills. Broadening this discussion to all obstacles on the way to achieving a single European
market would help assess the impact of increased RES uptake in European power markets.

EWEA considers it necessary not to discuss support mechanisms for renewable energy in isolation. In January 2011 the European Commission highlighted “fossil fuels [are] still receiving four times the level of subsidies [as renewable energy]”\(^1\). In this context, the industry supports an early phase-out of subsidies still received by fossil fuels, nuclear and other supposedly commercially viable technologies.

Focussing the discussion on the 10% of the electricity market occupied by “new” renewable energy sources risks failing to address the major distortions in the other 90% of the electricity market served by non-renewable sources and hydro. The non-harmonisation of support mechanisms available to fossil fuels and nuclear generation technologies should also be examined by CEER in order that the regulators so not appear to be discriminatory against renewable energies.

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