



THE EUROPEAN WIND ENERGY ASSOCIATION

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## **EWEA position paper on European Commission Guidance for Renewable Energy Support Mechanisms**

### Summary

EWEA welcomes the intention of the European Commission to publish guidance as originally proposed in its Communication “Renewable Energy: Progressing towards the 2020 target” in January 2011.

The Guidance provides the ideal opportunity to encourage the long-term stability of well-designed national renewable energy support mechanisms. The Guidance should not seek to develop or promote a preferred mechanism design e.g. feed-in premiums, FITs, tenders or green certificates, as this would in effect provide guidance on good design to only a few national mechanisms.

In order to enhance the value of the Guidance and help ensure Member States comply with internal market rules, a simplified procedure under State aid clearance should apply for support mechanisms which meet the requirements of the non-binding Guidance, with the European Commission meeting a strict deadline for its decision.

Successful frameworks require more than a good support mechanism. Effective policies must be put in place for the further integration of wind energy, from an infrastructure and market perspective, and remove all discriminating practices, including barriers to grid access. A comprehensive framework must also ensure system adequacy and remove barriers (e.g. onerous administrative procedures). In addition, public acceptance issues need to be addressed.

The Guidance should encourage national support mechanisms, in particular, to be designed in order to:

- Provide long-term visibility and certainty;
- Maintain investor confidence through transparency and negating regulatory risk by preventing stop-go policies, and retroactive changes;
- Ensure long-term affordability of the support mechanism;
- Provide differentiated support in order to foster a cost-effective deployment of renewables;
- Encourage simplicity in design and implementation;
- Be highly effective in deploying renewable electricity generation;
- Encourage technology diversity to allow for a sufficiently wide-portfolio of renewable energy technologies, including offshore wind, in order to meet EU energy objectives;
- Make renewable energy more affordable by reducing costs through innovation and technology development;
- Encourage greater market responsiveness with increasing wind energy penetration levels;
- In the medium to long-term, deliver more coherence/convergence or be made more compatible, across the EU, in tandem with the development of a single electricity market;
- Facilitate competition and ensure fair access for different market players and new entrants by removing regulatory barriers;

### EWEA position on support mechanisms

Ultimately, the objective of the industry is to be competitive in a fully liberalised electricity market, and to deliver the benefits of wind energy in the most affordable way. The industry is committed to bringing down the cost of wind energy and already has a positive track record in this respect. Investments made possible by well-designed support mechanisms help drive down costs – both capital costs and the cost of capital – and will



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enable on-going reduction, and ultimately remove the need for specific support. Well-designed renewable energy support mechanisms also promote cost reduction by encouraging innovation and economies of scale.

In the absence of an EU mechanism fully internalising environmental costs, support mechanisms are the best tool to counteract market failure (subsidies to fossil fuels and nuclear, lack of a level playing field at regulatory level, and the lack of internalisation of external costs in the electricity sector). A well-functioning Emission Trading System can play a role in supporting Europe's more direct and effective renewable energy policy, namely renewable energy targets.

Successful mechanisms must be formulated and implemented to provide long-term visibility and certainty, be carefully designed to reduce regulatory risk and attract finance. Changes of support mechanisms should only occur in a way that does not destabilise the market. Stop-go policies, and retroactive changes, significantly undermine investor confidence and, needlessly, increase the cost of capital for capital-intensive technologies, such as most renewables.

Eliminating barriers reduces costs and need for support as do investments made possible by well designed support mechanisms. Policy-makers should therefore ensure their administrative and grid access procedures are optimal. Better electricity market design and infrastructure will also be instrumental in improving the affordability of wind energy. More liquid intra-day and balancing markets over larger regional areas - not limited by country borders - are critical to a cost-effective integration of wind energy.

Support mechanisms for renewable energy should not be discussed in isolation. For various controversial reasons, subsidies are still received by fossil fuels, nuclear and other supposedly commercially viable generation technologies. These energy subsidies, until removed, should be taken into account when calculating aid intensity levels for renewables.

Renewable energy support mechanisms should be designed to deliver more convergence, or made more compatible in parallel with the completion of the electricity market. With increasing wind energy penetration levels, support mechanisms should encourage greater market responsiveness.

Any discussion on the compatibility or convergence of support mechanisms needs to take account of varying grid access costs, administrative costs, access to capital and national fiscal frameworks. Promoting a single mechanism across the EU without taking account of these elements would give market players a false sense of transparency and lead to misguided investment decisions. A differentiated approach should be chosen to reflect these different cost factors and penetration levels.

Crucially, the Guidance on Support Mechanisms should be compatible with the State aid guidelines. The on-going review of the State aid guidelines is an opportunity to allow better targeted support for renewables. For example the guidelines should enable Member States to strike the appropriate balance between revenue and capital support. This would help addressing the risk profile of the different rationales for support including R&D, production development or market failure. Ultimately, State aid clearance for support mechanisms which meet the requirements of the non-binding Guidance should benefit from a block exemption or be fast-tracked by the Commission which should meet a strict deadline for its decision.