

The European Commission's 2016 *Winter Package* and latest developments regarding cooperation and market integration of renewable energy

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- ▶ Studies of Law at the Universities of Marburg and Hamburg
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- ▶ 1991 Liaison office of Hamburg and Schleswig-Holstein to the European Commission in Brussels
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The EU Energy Union

- ▶ “The year of 2016 will be the year of delivery of the EU Energy Union.”
- ▶ Goal: “a resilient Energy Union with an **ambitious climate policy at its core** is to give EU consumers - households and businesses - secure, sustainable, competitive and affordable energy. Achieving this goal will require a **fundamental transformation of Europe's energy system.**”
- ▶ Ambition: “to make the EU the world number one in **renewable energies.**”

Main EU Agenda Topics in 2016

- ▶ Preparing the winter package 2016 (Nov/Dec): proposals for
 - Market Design Directive
 - Renewable Energy Directive
 - Energy Efficiency Directive
- ▶ Important topics are sustainability criteria and labelling (tbc)
- ▶ Energy Market Design includes self-consumption, capacity markets and mechanisms, H & C Strategy
- ▶ Governance addressed in Renewable Energy Directive
- ▶ Potential revision of 2030 goals

EU Energy Market Design

Internal Electricity Market in Europe: Recent Progress



- ▶ Third European Energy Package (2009):
 - Effective ownership unbundling
 - Independent transmission system operator (TSO)
 - Energy regulatory authorities
- ▶ EU 2030 framework for climate and energy policies (2015):
 - €5,85 billion budget for energy infrastructure
 - Electricity transmission lines qualify for PCIs
 - Smart grids

A new Energy Market Design

- ▶ European Commission
 - Analysis of response for public consultation
 - Ongoing impact assessment
 - Stakeholder meeting in Brussels (5 Feb 2016)
 - Result from sector inquiry on capacity markets and mechanisms (Feb/Mar 2016)
- ▶ European Council
 - One of the key issues for Dutch EU Presidency
- ▶ European Parliament
 - Ini Reports on retail market, market design and heating and cooling (between Feb and Jul 2016)

EREF Position on Energy Market Design

- ▶ Transformation towards an energy system with renewable energy at its core, creation of stable and reliable framework conditions for the integration of renewables
- ▶ Reduction of the generation of inflexible conventional power plants, including nuclear and fossil fuel plants
- ▶ Establishing of intraday markets based on scarcity pricing, allowing developing of demand and supply-based solutions while rewarding flexibility
- ▶ No capacity markets due to hindering the cost-effective integration of renewable energy and development and competition
- ▶ Removing of regulatory barriers for renewables and disproportionate grid charges and taxes imposed as well as tax exemptions and other advantages for fossil fuels and nuclear power

EREF Position on Energy Market Design

- ▶ Enabling of the use of various flexibility potentials, including grid expansion measures and regional cooperation
- ▶ Support of demand-side response, increased energy efficiency and savings in general
- ▶ No administrative barriers for self-consumption
- ▶ Boosting of the role of regional coordination initiatives through transnational contracts

A New European Energy Market: Interim Positions of the European Commission



- ▶ High importance of harmonised network codes
- ▶ Enhanced development of inter-connectors within the EU
- ▶ Energy-only market with a secured supply;
- ▶ Creation of balancing-markets
- ▶ Inter-linkage of intra-day markets from 2017 onwards
- ▶ Electricity price peaks as investment incentives (no limits to electricity price peak)

A New European Energy Market: Interim Positions of the European Commission



- ▶ “Integration” of renewables in the market through
 - Subsidies and support for renewables in line with the market
 - Balancing responsibility for renewables
 - As soon as new market design functions, priority dispatch for renewables will be abandoned
- ▶ Equal treatment of demand-side management and electricity production

A New European Energy Market: Interim Positions of the European Commission



- ▶ Role of consumers:
 - Dynamic billing for consumers
 - No regulated electricity prices
 - Highly flexible demand-side management for companies and especially for private households
 - Aggregators for private households

A New European Energy Market: Interim Positions of the European Commission



- ▶ No subsidies/support for power stations which lose money; instead market-based approach
- ▶ National capacity markets will not be allowed to disrupt European market design
- ▶ Assessment of national capacity markets needs to be done with a harmonized/same methodology
- ▶ Regular revision/check of market system during transition period
- ▶ Enhanced European interconnectivity (transnational grid capacity)

Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020



- ▶ In force since 1 July 2014
- ▶ Binding as every national support system designed as a State aid mechanism must comply or be approved by the Commission
- ▶ Type of support allowed based on installation size:
 - Installations under 500kW (3MW wind): Feed-in tariff still possible;
 - Installations under 1MW (6MW wind): Feed-in premium;
 - Installations above 1MW (6MW wind): Feed-in premium and technology neutral tendering.
- ▶ Member States have several derogations where they can decide:
 - Not to use a bidding process;
 - And/or to use a technology specific process.

Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020



- ▶ Gradual implementation
- ▶ Application of the guidelines:
 - Guidelines apply only for new schemes that are being newly notified to the Commission
 - The approval for the Commission is only valid for 10 years
- ▶ Support schemes will be phased out more and more
- ▶ Are auctions better system?

EREF' Position on Auctions

- ▶ De facto cap for renewable energy development
- ▶ High danger of exclusion of small producers and citizens
- ▶ Perpetuation of dominance of large players
- ▶ Advantages:
 - Market-based instrument – generation at lowest price
 - Volume control element
- ▶ Disadvantages:
 - Large administrative efforts for small producers (Also: economies of scale may make them less competitive (“more expensive!”))
 - Different experiences with overbidding (price resulting from tender too high = overcompensation) or underbidding (price too low = projects never get built)

Critical Assessment of Auction Schemes

“Non-realization” issues (e.g. prequalification criteria, penalty payments for non-fulfillment)

- ▶ Practical implementation has been partially successful, but there are difficulties to find a compromise between encouraging high realization rates without over-restricting the number of market participants.
- ▶ When determining the target volume for the auction, the potential share of non-realized projects should be taken into account.
- ▶ Too harsh measures to avoid underbidding may increase the risks for plant operators and therefore lead to higher risk premiums and policy costs.

Critical Assessment of Auction Schemes

- ▶ Shifting risks to the project developer may lead to higher support costs -> distribution of risk to the actor best able to deal with them.
- ▶ Auctions for small-scale technologies are possible, but have to be designed adequately to ensure a high share of eligible bids.

Critical Assessment of Auction Schemes

Guarantee of continuity of support

- ▶ Need to ensure regular and predictable auction timetables. But too regular schedules might increase the possibility of strategic behaviour by larger market players.
- ▶ Lower frequencies tend to be more difficult to cope with for smaller market players.
- ▶ Transaction costs rise with increasing auction frequency.

Critical Assessment of Auction Schemes

Limitation of technology neutral auctions

- ▶ Technology-neutral auctions in particular cause lower technology diversification by predominantly encouraging technologies characterised by low generation costs, and neglecting support for more innovative technologies.
- ▶ Technology neutral auction design tends to provide only very limited development possibilities for less mature technologies and thus can limit the variety of market participants.

Reform of the German Energy Law

Auctions for all Renewables



- ▶ By 1 October 2015: consultation on future auctions for all renewables
 - Auctions for all renewables to start end 2016
 - Latest ideas of what auctions will look like for PV
 - No auctions for PV below 1 MW
 - Auctions for free field and building PV together
 - Auctions for rooftop in different category
 - Reason: Easier and less costly to realize, possibly thus shorter realization periods
 - “Pay as bid”
 - About 3 to 4 auctions per year
 - Awards cannot be transferred (must relate to the project) but can be sold with the project

Market Design: Timeline

	New Energy Market Design
8 Oct 2015	End of public consultation on market design
18 Nov 2015	State of the Energy Union
Nov 2015 – Apr 2016	Evaluation and consolidation of content of new energy market design
Dec 2015	EP Ini Report on Energy Union
Feb 2016	Publication of Heating and Cooling Strategy
Feb-Jul 2016	EP Ini reports on market design and retail markets
Spring 2016	Impact assessment of energy market design
Q4 2016	2016 Winter Package including Market Design Directive, Renewable Energy Directive, Energy Efficiency Directive, sustainability criteria, labelling (tbc)
End of 2016/ early 2017	Legislative reports

2030 Governance Regime

A New Energy Governance Structure Discussed Options



2030 goal: a binding EU-wide target of at least 27% renewable energy within gross final energy consumption

- ▶ Binding or non-binding national renewable energy contributions?
Binding regional targets?
- ▶ Enforcement of the implementation of national contributions?
- ▶ Regional cooperation (coordinated regional policy planning, joint projects between Member States, joint research activities and co-funding for innovative technologies)?
- ▶ Incentivizing national investments in renewable energy?
Countries with ambitious RE targets get additional EU funding.

EREF Position on 2030 Governance

- ▶ Legally binding national targets including trajectories
- ▶ Governance enshrined in legislation and agreed upon in co-decision
- ▶ Built on existing blocks of legislation of current RE Directive
- ▶ Creating and maintaining a clear and reliable framework for RE deployment (investment security, avoidance of retrospective policy and legislation changes)
- ▶ Regional cooperation and coordination

Timeline: Governance & RED

	2030 Governance Scheme and recast of the Renewable Energy Directive
6 Oct 2015	Meeting of task force on national energy and climate plans (national focal points) re country fiche and governance scheme
Nov 2015	End of Energy Union Tour of Vice-President Šefčovič
18 Nov 2015	State of the Energy Union
26 Nov 2015	Energy Council Conclusions
Dec 2015	EP Ini Report on Energy Union
Feb-Jul 2016	EP Ini Report on Renewable Energy Directive
Spring 2016	EC: New reference scenario and impact assessment
June 2016	EC draft proposal of revised Renewable Energy Directive (RED)
Jul to Sep 2016	Inter-service consultation and Scrutiny Board
Dec 2016	EC proposal for revised RED

EREF Position on the Revised Renewable Energy Directive

- ▶ Revision of the current Directive - build upon and upgrade the relevant provisions of the current Directive
- ▶ The continuation and reinforcement of existing provisions through binding measures in order to ensure predictability of investors
- ▶ Ensure coherence among different climate and energy legislative pieces (Energy Efficiency Directive, the Energy Performance of Buildings Directive and the upcoming market design legislative proposals)
- ▶ Make full use of right of initiative to reflect COP 21 level of ambition

EREF Position on the Revised Renewable Energy Directive

- ▶ Propose an ambitious mechanisms that incentivise Member States to pitch higher than 27%
- ▶ Setting a uniform and binding template for national climate and energy plans, preserving reporting on trajectories and policy developments per sector, type of renewable energy sources and enabling technologies
- ▶ Propose differentiated target delivery mechanisms covering both large scale and small scale RES installations
- ▶ Safeguard measures (gap-avoiders) and a gap-filling instrument should be agreed in advance and triggered as a measure of last resort, yet actionable as of 2020

EREF Position on the Revised Renewable Energy Directive

- ▶ Introducing new provisions on prosumers and renewable self-generation and consumption of both power and heat
- ▶ Reduction of soft costs by addressing persistent market failures and barriers (administration, installation, grid connection)
- ▶ Tailor-made renewable support-mechanisms
- ▶ Prioritising of market design reform
- ▶ Transposition of the new renewable package provisions by end of 2020

European Commission: State of the Energy Union (Nov 2015)

- ▶ Acknowledgement of need for “reliable and transparent governance process, anchored in legislation”
- ▶ Bilateral dialogue between EC and Member States based on country fact sheets
- ▶ Biannual national progress reports as monitoring system
- ▶ Commission will assess collective progress in annual State of the Energy Union and will propose policy actions and measures
- ▶ “Everything else” will be addressed in new Renewable Energy Directive (2016)

European Commission: State of the Energy Union (Nov 2015)



- ▶ Integrated national energy and climate plans addressing all five dimensions
- ▶ EC Guidance document to Member States on national energy and climate plans
- ▶ EC proposal on streamlining planning and reporting requirements for Member States by 2016
- ▶ NECPs should include regional cooperation (EC guidance expected for 2016)
- ▶ Established methodology on key indicators
- ▶ Key indicators as tool to measure the delivery of the Energy Union

Recast of the Renewable Energy Directive: Latest Developments from the European Commission



- ▶ National reporting templates included in legislation on streamlining of reporting; they have a legal basis
- ▶ Regional targets will not be imposed; but obligation for Member States to consult each other
- ▶ Search for innovative ways to replace national targets
- ▶ Measures for gap avoidance have priority to gap filling measures
- ▶ In process of assessing options for regional cooperation
- ▶ Still consideration to develop regional support scheme

EU Member States and Council

- ▶ European Council conclusions (Oct 2014): binding EU target of at least 27% share of RE in consumed energy
- ▶ To date, around 30% of EU Member States have comprehensive energy and climate strategies in place beyond 2020
- ▶ Draft Council conclusions on Governance (11 Nov 2015):
 - Essential components of new governance system:
 - Nation Energy and Climate Plans
 - Constructive dialogues between Commission and Member States
 - Monitoring and evaluation based on key indicators by biannual national progress reports

EREF Position on regional cooperation

- ▶ Current methodology under RE Directive for defining national targets
- ▶ Linear instead of exponential growth trajectories for RE
- ▶ EC developed template for national plans to ensure consistency and comparability among Member States
- ▶ Non-binding RE targets become binding if lack of progress
- ▶ Efficient monitoring and enforcement system for national contributions
- ▶ Mandate to EC to propose corrective measures + infringement procedures
- ▶ EU funds as “carrot approach”

EREF Position on regional cooperation

- ▶ Key tool in order to boost RES development
- ▶ Exploration of additional efficiency potentials
- ▶ Reduction of the individual Costs of the Member States of meeting the EU goal, thus increasing the overall system and supply security
- ▶ A “test ground” for pragmatic solutions whether The member States agree on a shared objective

Successful Projects and Cooperation (1)

- ▶ North-Western European (NWE) day-head market coupling (2014)
 - 15 states: Central Western Europe, Great Britain, Nordic and Baltic countries
 - 13 TSOs, 4 Power Exchanges
 - 1,816 TWh per year, daily value of over €200 million
 - 60 % of European power consumption

- ▶ 2 pending Projects
 - South-Western Europe (SWE) France, Spain and Portugal
 - Price Coupling of Regions (PCR): possible fusion of NWE and SWE to create one common harmonized European electricity market

Successful Projects and Cooperation (2)

- ▶ NordLink – subsea HVDC power cable (PCI)
- ▶ German's wind energy surplus transported to Norway
- ▶ Length: ~500km, capacity: 1400 MW, voltage: 500kV
- ▶ Construction costs: €1,5-2 billion -> 2019
- ▶ Benefits:
 - Increased security of supply
 - Wider market for power producers during times of surplus
 - Facilitation for increased production of renewable energies
 - More predictable thus, stable supply and price situation
- ▶ Complementary to SuedLink:
 - Electricity "highway" from North to South Germany
 - Prevents possible electricity scarcity in Bavaria (nuclear phase-out)

Thank you very much
for your attention.

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