Implementing regulation Renewable energy – financing mechanism for EU-wide projects

A Eurelectric response paper

June 2020

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

Dépôt légal: -

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Implementing regulation

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Eurelectric welcomes the proposal for a draft implementing regulation on the Union renewable energy financing mechanism. We hope that it will foster the overall renewables deployment and contribute to secure the achievement of the EU renewables target. We welcome in particular its clear voluntary nature and we want to stress that, overall, the proposed mechanism shall be carefully designed and implemented in a way that does not distort or interfere with the markets and existing renewable support schemes in the host Member States.

We would like to make the following preliminary comments:

Distinction between the gap filler and the enabling functions

The proposed mechanism fulfils two functions: gap filling and part of an enabling framework.

Regarding the **gap filler**, a host Member State should decide on whether – and to what extent – increase the RES deployment in its territory. Member States should carry out a detailed cost-benefit analysis (e.g. on additional wholesale market price depression, consequences for adequacy, additional RES integration costs for network and / or flexibility and or risk of larger RES curtailments) before deciding to host RES financed through the mechanism.

Regarding the **enabling framework**, some of the purposes do not correspond to promoting RES generation *per se*, but to integrate RES into the system (i.e. flexibility, grid stability, congestions; develop grids, digitalisation, storage, interconnections). The mechanism proposed does not seem to be fit for these purposes and, in fact, apparently limits the enabling function to reducing the cost of capital for renewable energy projects and enhancing regional cooperation (see recital 6 of the draft proposal). A clarification is needed and, in any case, actions related to non-RES purposes should be out of the scope or the UREFM and ad-hoc mechanism(s) should be considered (e.g. TEN-E and CEF Regulations).

Compatibility between the NECPs and the gap filler mechanism

The increase of RES generation subsidised with funds coming from EU Member States, which are not able to comply with their own indicative trajectory, might crowd out RES generation investments in the host Member States otherwise intended to reach the targets set up in their NECPs. In organising the different auctions, this effect has to be avoided.

A RES-based system needs collective effort from all Member States. Hence, while maximising the statistical transfers to contributing Member States should be the objective, it should be subject to a balanced distribution of RES production along the EU.

The mechanism should not be used by Member States to make up for delays in national RES deployment (e.g. due to difficult energy transition decisions / actions).

Impact on transmission and distribution networks

In order to accommodate a higher volume of variable RES in the system, significant investments will also be needed in the transmission and distribution grids (reinforcement, new infrastructures, digitalisation). The relevant cost incurred in this development of the grid as well as the important needs of digitalisation which will be needed in the future should also be borne by the voluntary funds of the Member States to install RES plants to fill the gap. All the costs associated to the grids due to this additional RES generation (driven by the proposed mechanism) should be paid by the financing mechanism and not by the host country consumers (since the RES generation will count for the targets of the non-compliant country).

More specifically, the case of electricity with a high level of RES penetration but limited cross-border capacity (e.g. Spain) should be carefully considered to avoid the risk of curtailment.

Criteria for calls for proposals and grant award procedures

In general, it should be guaranteed that a variety of actors can participate to the grant award procedures and that they can compete on a level playing field. The draft implementing regulation doesn't specify enough to which degree the projects have to be developed, and what the concrete eligibility criteria are. At least, minimum criteria on the financial and technical credibility of a developer should be specified. If no clearer criteria on the eligibility criteria for projects can be foreseen in the draft, there should be at least enough time for developers to prepare their applications. In addition, there are no clear consequences foreseen for developers, in case a project will not be realised. For ensuring fair competition and a high realisation rate, an adequate penalty should be foreseen.

Concerning the timing of the calls, they should be sufficiently coordinated so that developers have enough time to consider the different calls. The costs of the support system should be kept as low as possible overall. For example, subsidies should only be granted in the amount necessary for the economic operation of the plant.

Specific grant award procedures to support small-scale projects or innovative projects

With regard to the possibility of organising specific grant award procedures to support small-scale projects or innovative projects on the basis of the expressed preferences of the participating Member State (see recital 20 of the draft proposal), and considering additional award criteria (in addition to price) for demonstration projects (see article 20 of the draft proposal):

- Small-scale projects: the European Commission should design the award procedure in a way that ensures that all projects – regardless of their size – can compete effectively, for the sake of overall efficiency. In this sense, the award procedure must be suitable for small-scale projects.
- Demonstration projects: the European Commission should ex-ante define the priorities and objectives in terms of RES technology R&D&I for the sake of transparency and a level playing field among host Member States.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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