



EUROPEAN COMMISSION

## MEMO

Brussels, 5 November 2013

# Questions and Answers: EU Commission: Guidance for state intervention in electricity

## Why this communication?

Renewable energy - both wind and solar - was for a long time a new technology that **needed state intervention** to develop. With technological progress, investment costs in solar panel falling and production expanding, **many Member States have started a reform** of their **support schemes for renewables**. The Communication gives **guidance** on how best to reform **existing national support schemes** for renewable energy.

At the same time, it looks at **back-up capacities for renewable energy**: When the **sun is not shining and the wind is not blowing**, electricity must still be produced in sufficient quantities to deliver energy to consumers and keep the electricity grid stable. With the increase of renewable energy production, this becomes a challenge. It is for this reason that in **several Member States, discussions take place on how to organize and finance back-up-capacities**, for example coal and gas power plants which are flexible enough to be turned on and off whenever needed.

The Communication **gives guidance on how these back-up capacities** can be designed in a cost-efficient way and takes full advantage of the European market.

## What is new in the communication?

It sets out principles for state intervention in two fields:

1. National support schemes for renewable energy (mostly solar and wind)
2. Setting up back-up capacities for renewable energy (mostly fossil fuels, such as gas and coal fired power plants)

- **1. Best practice for national support schemes for renewable energy:**
  - Support should be limited to what is necessary.
  - Support schemes should respond to falling production costs. As technologies mature and investment costs fall - solar panels for example cost only a fraction of what they have cost ten years ago - supported technologies should be gradually exposed to market prices and eventually support must be fully remove.
  - Unannounced or retroactive changes to the support schemes must be avoided. Investors' legitimate expectations concerning the returns on existing investments must be respected.

- Member States should better coordinate their renewable energy policies. Renewables should be produced where the sun shines most or the winds are the strongest.
- **2. Principles for back-up capacities for renewable energy:**
  - Before deciding on capacity mechanisms, governments should **first analyse** the **causes** for inadequate generation.
  - Secondly, they should **remove any distortions** that may in the first place **prevent the market from delivering the right incentives for investment** in generation capacity. Such causes can be: regulated prices, high subsidies for renewable energy.
  - Governments should also ensure that **renewable electricity producers** react to **market signals and promote flexibility** on the demand side, for example by promoting different tariffs to consumers and therefore giving an incentive to use electricity at other times than peak times ("smart grids" and "smart metering").
  - Any **back-up capacity mechanism** should not be designed having only the national market in mind but the **European perspective**. It should not exclude existing capacity only because it lies across a national border.

### **What concrete support schemes does the Commission propose for renewable energy?**

- **Auctions/Tenders:** Member States auction a certain **capacity of renewable energy production**, for example wind power, to **the lowest bidder**. This would **foster competition among wind power producers** and reward the most cost-effective projects. This is also a suitable system for other mature technologies such as biomass power. Mature means that investment costs and risks are lower.
- **Feed-in premiums:** Renewable energy producers are paid a **market price plus a premium**. While the system still ensures investors a reasonable and safe return it also **exposes them to market price signals**. This is the difference to feed-in tariffs, where producers **receive a fixed price per kWh** independently of the market price. While feed-in tariffs are more suitable for new technology, feed-in premiums are more suitable for technologies that are approaching maturity and investment and production costs are lower.
- **Quota obligations:** Energy suppliers have to ensure that a certain share/quota of the electricity they supply comes from renewable or green certificates. The price of the **renewable energy is a market price**. The quota obligation can apply to all forms of renewable energy, thereby increasing competition. However, a certain differentiation across technologies may be necessary as long as a technology is not yet mature.
- **Investment aid:** As **support is paid up front** it helps avoid that generators produce excess energy when it is not needed. It should be favoured over **operating support**.
- **Cooperation mechanisms.** To ensure that renewable energy plants are built in locations where the electricity production is the cheapest support schemes should **be gradually opened up across borders**. This should be done by using cooperation mechanisms. Through cooperation mechanisms Member States may take renewable electricity produced in another Member State into account for the achievement of their renewable energy target for 2020. Cooperation mechanisms include:
  - - statistical transfers, accounting of the renewable energy produced in one Member State towards the target compliance of another;

- - joint projects which are supported by more than one Member State and where the resulting energy is also shared for target accounting;
- - joint support schemes, whereby Member States create a common cross-border support regime for the renewable energy sector or sub-sectors thereof.

### **Are you suggesting feed in tariffs to be phased out? How?**

Under feed-in tariffs producers **receive a fixed price per kWh of electricity they produce**. This shields them from market forces. Feed-in tariffs are useful in keeping risks low for investors **of immature technologies**. As technologies mature and their share of production **reaches a substantial share of the market**, this kind of protection is no longer necessary and **should be phased out over a given period of time**. Governments must avoid unannounced or retroactive scheme change. Investors' legitimate expectations concerning the returns on existing investments must be respected.

### **What about tax exemptions?**

Tax exemptions should be used with caution, not at least because of the need for budgetary consolidation. They are financed indirectly by all taxpayers.

### **What do you suggest for when sun or wind does not produce electricity?**

- Before deciding on back-up capacity mechanisms for renewable energy, governments should **first analyse the causes** for inadequate generation.
- Secondly, they should **remove any distortions** that may in the first place **prevent the market from delivering the right incentives for investment** in generation capacity. Such causes can be: regulated prices, high subsidies for renewable energy.
- Governments should also ensure that **renewable electricity producers** react to **market signals and promote flexibility** on the demand side, for example by promoting different tariffs to consumers and therefore giving an incentive to use electricity at other times than peak times.
- Any **back-up capacity mechanism** should not be designed having only the national market in mind but the **European perspective**.

### **What impact has the proposed measures on Member States?**

The Communication published today is **not a legally binding act**. However, it does set out the **main principles which the Commission will apply when assessing state interventions** relating to renewable support schemes or capacity mechanisms. The principles set out in the **Communication will guide the future enforcement of EU state aid** rules and future proposals for EU energy legislation.

### **How do your guidelines correspond to the envisaged state aid guidelines for energy and environment?**

The Communication and the staff working documents provide broader policy considerations on several pressing questions which involve **public interventions in general**, though **not necessarily amounting to state aid**. In addition, the Commission will soon launch a public consultation on the energy and environmental aid guidelines which will provide a framework for assessing the compatibility of measures involving state aid with precise criteria for assessment under state aid rules. Both papers have been **aligned to each other and are based on the idea that public interventions** should,

whenever possible, **be more market-based**, more open to **cross-border solutions** and allow for more **competition between supported technologies**.

### **Next steps?**

In addition to the consultation on the energy and environmental aid guidelines the Commission will discuss with Member States how the principles set out in this Communication can be applied in practice. It will also continue to work with national governments and regulatory authorities (as part of the so-called Electricity Coordination Group), in order to ensure the cost-effective and sustainable security of electricity supply and generation adequacy.

### **More information**

[http://ec.europa.eu/energy/gas\\_electricity/internal\\_market\\_en.htm](http://ec.europa.eu/energy/gas_electricity/internal_market_en.htm)

Press Release on Guidance for state intervention in electricity

[IP/13/1021](#)