



ETSO comments on the Commission Communication concerning the Support of Electricity from Renewable Energy Sources (COM (2005) 627) and on the Communication related to the Biomass Action Plan (COM (2005) 628)

6 March 2006

Comments on the Communication concerning the Support of Electricity from RES

ETSO welcomes the communication from the Commission that assesses the existing support systems as well as their performance per energy source, looks at internal market and trade aspects, discusses administrative barriers and defines next steps.

However, one other important topic is missing in our view from the report since when looking at the effectiveness and the economy of support schemes, the market for CO₂ allowances should also be taken into account. Following the opening of the CO₂ market, the price gap between RES-E and conventional electricity has decreased.

1- Assessment of existing support schemes

As regards the assessment made by the Commission on the existing support schemes ETSO considers that the “investment support” should have also been taken into account since many countries in the EU use them.

The general view in the Communication is that feed-in tariff systems are the most effective. ETSO would like to stress that these systems are only acceptable in the short term when a specific energy source needs investment security. When the energy source is mature, over-funding is a problem. ETSO finds that a market-based system, such as the green certificate system, could - when appropriately designed - be the most cost-effective and non-distortive system if such is needed after possible investment support. A requirement would be that a harmonised approach was adopted across Europe.

An important difference between the two systems mentioned above is that the level of feed-in tariffs is set by the national governments and they are not able to change quickly. The price of green certificates is, on the contrary, set by the market and can change from day to day which is more cost-effective although, at the same time, involves higher investment risks. Moreover, the certificate system should be developed EU wide to increase its liquidity that is missing at present since the certificates are only national.

Another important difference is the impact on the electricity market. With feed-in tariffs RES-E will be produced independent of demand and feed into the system, provided the tariff is high enough. In practice feed-in tariffs take capacity out of the market and in that way disturb the functionality of the open competitive electricity market. In a market-based

system the power plants only produce when the price is at their marginal cost or higher.

ETSO also considers that if a harmonised certificate system for the EU would take too long to be developed, an interim possibility could be to set up in all countries a system of premiums as is the case in some Member States such as Denmark and the Netherlands. This system is more market oriented than feed-in tariffs and therefore less distortive.

2- Internal market and trade aspects

ETSO agrees with the Commission that the internal electricity market and support of RES-E are intimately linked together. Therefore, where renewable energy sources cover a high share of domestic power consumption it is important that the RES-E producers are able to react better to the power prices on the spot market. Moreover, the deployment of RES-E surely will increase the need for cross-border trade and stronger interconnectors. In that regard it is important that grid reinforcements are based on social economical calculations.

ETSO also agrees with the Commission that a distinction needs to be made between the physical trade of electricity and the green value of the electricity. ETSO finds therefore very important to treat producers of RES-E on equal terms with other producers regarding the costs of the system. Coverage of balancing costs and grid costs should be in line with the principles of an open electricity market, meaning that RES-E producers, as all other producers, have to cover their balancing costs.

Further ETSO finds it necessary to stress that an unlimited priority dispatch for RES is a significant distortion of the market.

3- Administrative barriers

ETSO fully supports the suggestions made by the EC and specially as regards the appointment of one-stop authorisation agencies, responsible for co-ordination of all administrative procedures using standard forms and requirements. Moreover, clear guidelines for authorization procedures and obligatory response periods for the authorities involved need to be incorporated in these procedures.

Finally ETSO also agrees that pre-planning is very important and that it should take new grid infrastructure into account. For instance: What kind of grid infrastructure is needed to include the production from the new plants? Who will bear the costs if the envisaged renewable power plant is not built after all or built with significant delay?

4- Co-existence or harmonisation?

ETSO, although understanding the difficulty, finds unfortunate that the EC has not taken the opportunity already now to propose a community framework for the support schemes. In our view, whatever rules are adopted to support renewable energy sources, it is essential to have harmonised rules and support schemes to avoid cross border distortions in the European electricity market.

At least a coordinated approach based on cooperation between the countries would therefore be a step in the right direction if an EU-wide harmonisation is not yet possible.

Moreover, ETSO considers essential to stress the need for harmonised grid access rules in the EU. RES-E power plants should only be supported if they use the best available technology. This will reduce unplanned and uncontrollable disconnection from the grid and thereby improving stability and as a result also the security of supply. It will facilitate a higher integration of RES-E capacity, making it easier to reach the RES-E targets set in the RES-directive.

Finally ETSO agrees with the Commission that as part of the optimisation process electricity end-use efficiency measures are necessary.

Comments on the Communication concerning the Biomass Action Plan

ETSO welcomes this communication and the initiatives proposed by the Commission of both legislative and monitoring nature. However, ETSO finds that in order to fully obtain the potential of biomass, a harmonised market based and cost-reflective Community approach could be more effective than e.g. encouraging Member states to take action. The necessary legislative measures to develop such plans should be put in place.

ETSO considers that many Member states have large potential for using more biomass and that it is important to better make use of this potential. Biomass improves security of supply by reducing reliance on imported energy and contributes to reduce green house gas emissions.

Moreover, ETSO finds that an important benefit not mentioned in the Communication is that biomass generation is easy to forecast, and contributes therefore to the balance of the system. Biomass power plants are also able to be flexible in the market; if the prices are low, the power plants can reduce generation and thereby improve the security of supply. In this regards biomass power plants should cover their balancing costs like all other power generators in the market. As stated also for wind, it is important to treat producers of RES-E on equal terms with other producers regarding the costs of the system.

ETSO welcomes very specially that biomass research and development has been given high priority. Optimisation and the development of technology are very important to obtain sufficiently cost effective solutions that are able to be part of the open electricity market.