

London, 6 February 2012

Mr Philip Lowe
Director General
DG ENER
European Commission
1049 Brussels
Belgium

Dear Philip,

I write on behalf of the European energy regulators to provide you with our views on your consultation document on the renewable energy strategy.

We note that the Renewable Energy Directive (Directive 2009/28/EC on the promotion of the use of energy from renewable sources) requires the Commission to present a post-2020 roadmap in 2018. European energy regulators welcome the European Commission's aim to assess the validity of the current approach to promote renewable energy for a period – post-2020 – where it will be applied on a large scale and represent a higher share in gross final energy consumption.

As regulators we will not comment on “political” issues such as whether there should be binding renewables targets post-2020. Instead, we would like to focus on those sections of the consultation paper which are related to regulatory issues. I provide below more detailed remarks on the relevant sections of the consultation document.

As general remark, in our view, some of the issues raised in the Commission consultation document are also relevant for the period leading up to 2020, by which date all the technical work on Framework Guidelines and Network Codes should be carried out to support full market integration. In this ongoing process of integration, coordination and harmonisation of national rules and regimes, we consider it important to take into account the increasing contribution of variable renewable energy in the electricity system.

In addition, we note the link to the ongoing development of market rules. We recognise that, with sufficient interconnection capacity and a stable and adequate regulatory framework for cross-border energy trade, managing variations of intermittent generation in some local areas could be provided also from elsewhere in Europe. From this perspective, ACER's current work on Framework Guidelines on Electricity Balancing presents an opportunity to enhance system integration of renewable generation.

Financial support – Section B

European energy regulators launched a public consultation on 9 November 2011 on the implications of the lack of harmonisation of renewable energy support schemes in Europe¹. The consultation closed on 6 January 2012. The aim of the consultation was to explore some of the effects that the differences between support schemes in Europe may have on investment decisions and on market functioning. Preliminary findings show that different support schemes unsurprisingly have an impact on investment decisions across Member States. Therefore we recommend that future support schemes are more market-oriented (in the sense of encouraging increased participation of renewables in the market) and that, at a minimum, comparative information about the support schemes across the Member States is published and benchmarked to encourage their convergence. We are working to finalise our analysis of the responses to the consultation during the first half of this year.

As you are well aware, considerable financial resources are being deployed to support renewables, both in recent years and in the near future, with the aim of stimulating and encouraging the development of renewable power generation technologies and accelerating the learning curve. For that reason, the overall amount of subsidies should (theoretically at least) eventually decrease and even disappear, but it is difficult to conclude whether this will happen by 2020.

Grid integration of electricity from renewable energy sources – Section D

In our conclusions paper on the regulatory aspects of the integration of wind generation in European electricity markets², energy regulators argued that network arrangements, where possible, should not distort the incentives that wind generation has in choosing where to locate and should appropriately allocate risk among consumers and industry.

During the consultation process on the integration of wind generation, respondents generally agreed that TSOs should take a more proactive approach to generators' investments. This could mean the consideration of the needs of the network on a short and long-term basis, taking account of different scenarios for renewable generation and identifying appropriate locations as part of existing infrastructure for new generation. The level of transparency provided by TSOs was also highlighted as an important issue. It was argued that TSOs should provide information dedicated to renewable energy as part of their network development plans and that they should produce an annual report that details the causes of delays and the corrective action, including action taken to speed up the authorisation procedures.

Following the implementation of the Third Package and the resulting Framework Guidelines and Network Codes, along with the Energy Infrastructure Package proposals on cost sharing, we expect substantial progress (if not perfection) before 2020 in dealing with national differences on many issues including grid connection rules, balancing and market access and network charges. We would therefore see the case for priority rules for

¹ Implications of Non-harmonised Renewable Support Schemes. A CEER Public Consultation Document, Ref. C11-SDE-25-04, 11 October 2011, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/ELECTRICITY/Non%20harmonised%20RES/CD

² Regulatory aspects of the integration of wind generation in European electricity markets. A CEER Conclusions Document, Ref. C10-SDE-16-03, 7 July 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/ELECTRICITY/Integration%20of%20Wind%20Generation/CD/C10-SDE-16-03_CEER%20wind%20conclusions%20paper_7-July-2010.pdf

renewables in these areas as becoming less necessary. For example, charges for connecting to and using the system should be transparent, cost-reflective, non-discriminatory, stable and predictable for all generators, as general principles.

Market integration – Section E

In the wind integration paper mentioned above, energy regulators also addressed the main issues related to market arrangements; in particular, cross-border capacity allocation, gate-closure times and balancing arrangements. The two latter are interlinked. Wind generators will be incentivised to properly balance their own generation provided there is a financial incentive which is cost-reflective and also based on wind generation's net position, and provided there is a sufficiently short gate-closure time in place. However, if wind generators are not responsible for their imbalances, they will not enhance their output forecasts which, in turn, would hinder the large-scale deployment of wind generation in the system.

Wind generation could also be incentivised to exploit further its technical characteristics in providing system services such as grid control and voltage dips.

These views will now be taken forward as part of ACER's (draft) Framework Guidelines on Electricity Balancing. These Guidelines (and the subsequent Network Codes) will relate to cross-border flows and, as such, will focus on the appropriate balancing rules for interconnectors. This is an important area for wind generation particularly as its proportion within the generation mix increases and as cross-border balancing is increasingly seen as a useful tool. It is also worth noting the possibility that the network codes on balancing could increasingly impact on national balancing rules in order to minimise distortions on trading.

Energy regulators support the idea that renewable energy should be exposed to price risks as is conventional energy. Therefore, support mechanisms in the post-2020 period, if necessary, should be based mainly on some form of premium above market prices.

Regional and international dimension – Section I

Achieving the target of raising the share of renewable energy in gross final energy consumption to 20% by 2020 as well as any initiative for a further development of EU renewable energy potential in a medium-term perspective call for a new type of partnership with EU external partners.

We consider that a key factor for the success of EU renewable energy policy is that a clear, stable and predictable regulatory framework is established for cross-border infrastructure use and development and for certification. This should be established not only by EU Member States but also by neighbouring countries. In this regard, the integration of this Directive into the Energy Community Treaty is a first, but important step towards the creation of an efficient pan-European energy market. Further convergence should be promoted notably to ensure the adequate functioning of the flexibility mechanisms provided for by the Renewable Energy Directive (Directive 2009/28/EC).

Increased availability of renewable energy, at least potentially, can play a mutually beneficial role to foster energy security of the EU and its partners. Beyond a clear political commitment to facilitate the development of renewable energy and, where appropriate, to support joint renewable energy projects with Third Countries, it is important that all

stakeholders are involved in efforts to intensify cooperation and knowledge sharing as well as exchanges of best regulatory practices with important suppliers, transit countries and key energy players up to and beyond 2020.

The independent EU energy regulators have gained, over the last years, a valuable knowledge of the consequences of the development of renewable energy sources in terms of market design. CEER's international cooperation activities with counterparts elsewhere (i.e. outside of the EU) fully integrate this dimension. I am pleased therefore to take the opportunity to renew energy regulators' commitment to support and contribute to any EU initiative requiring their expertise, including technical assistance projects supported by TAIEX and Twinning Projects. Indeed, European energy regulators have continuously promoted close cooperation with Southern Mediterranean Regulators through the Association of Mediterranean Regulators for Electricity and Gas (MEDREG), including on the regulatory mechanisms supporting the cost-effective deployment of renewable energy sources. This work should be encouraged by the new EU Mediterranean Energy Partnership.

The experience of the Regional Initiatives shows that regional cooperation can help to define a target model and to identify and implement the necessary regulatory changes that facilitate a more harmonised and integrated energy market. Regional cooperation is increasingly being used (if in a rather patchwork way) as a platform to reach a more coordinated approach for renewables, as for example between Norway and Sweden (a joint support scheme started on 1 January 2012) and within MIBEL (a joint initiative between Portugal and Spain with a view to the construction of a regional electricity market and where the possible harmonisation of support schemes is being analysed). We believe that, in the coming years, there is a significant potential for increased regional cooperation in the field of renewable energy, including with Southern Mediterranean countries.

Technology development – Section J

European energy regulators are not best placed to comment in detail on technology development, research and innovation issues. Nevertheless, we would note that the development of the associated (smart) grid should also be considered.

Finally may I underline that we continue to work closely on virtually all of these issues and we shall elaborate our thinking as developments progress. We would be happy to discuss this work with your Services and will keep them in touch with any further initiative to inform the Commission's planned 2012 Communication on Renewable Energy.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John O'Connell', with a stylized flourish at the end.

Cc: Ms Marie Donnelly (Director, Renewables, Research and Innovation, Energy Efficiency, DG ENER)