

17 February 2012

BUSINESSEUROPE response to the public consultation on the Renewable Energy Strategy

A. GENERAL POLICY APPROACH

A.1. Is there a role for new targets for renewable energy sources post-2020 assuming that any targets must be consistent with climate mitigation and energy efficiency policies and targets as is currently the case with the 20/20/20 targets in the Europe 2020 strategy?

BUSINESSEUROPE is committed to transforming Europe's energy system in order to achieve a low-carbon, secure and competitive economy. In this transformation renewable energy is an increasingly important element of the EU energy mix.

In the 2030 perspective a key goal of renewable energy policy must be to increase the role of the market for guiding production and use of renewable energy. Ideally, a greenhouse gas reduction goal would be a sufficient policy goal to let the market decide on the best energy mix in the EU.

The current troika of goals for 2020 – on emission reduction, on renewable energy and on energy efficiency – has not always been conducive to creating the most predictable and cost-effective policy environment. The possibility of an indicative 2030 renewable energy target at EU level should be part of the overall discussion on the future EU climate and energy policy post 2020.

Market orientation and cost-effectiveness as well as predictability and flexibility must be the basic principles of the future policy framework. In this light, also the high cost burden of renewables on industrial consumers compared to their global competitors has to be dealt with.

A.2. Are other policy elements necessary to promote renewable energy post-2020?

The extension of RES use in Europe necessitates a well-functioning internal energy market as well as the right policy framework. This calls for improved transparency, equal access to the grid, harmonized rules and regulations, strong and independent regulators and TSOs.

It also necessitates simultaneous grid extensions as well as new investments in infrastructure and interconnections between MS. The European grid system must be able to handle more inflows of intermittent sources like wind or solar and to feed in conventional power when necessary. In this context, incentives need to be created to for roll-out of smart grids. Planning and authorization procedures should therefore be streamlined, harmonized and accelerated by strengthening cooperation between TSOs, which will monitor and analyze planning developments at regional level.

Measures are needed in particular to promote research, development and demonstration (RD&D) in the area of renewables and storage, bearing in mind the fact that public

resources must also be mobilized to advance RD&D in other areas of energy production and energy efficiency. An enhanced focus on RD&D is necessary to bring down the costs of renewables and storage technologies and to continuously ensure sustainability and scalability.

Awareness campaigns and improved permitting procedures allowing public participation can help to raise public acceptance regarding new generation and infrastructure.

B. FINANCIAL SUPPORT

B.1 Do you consider that financial support will continue to be necessary to support renewables post-2020, given their expected greater penetration?

Financial incentives for renewables should be designed to encourage technological excellence and high economic efficiency. They should be clearly limited in time. Experience in the past has shown that measures to promote renewables have not always been cost-effective. Public support schemes for renewables should aim at integrating renewable energies in the energy market instead of separating them from the market.

In order to diminish market distortion, support schemes (if necessary e.g. immature technologies) should be as technology-neutral as possible, meaning that support should be directed towards the most cost-efficient technologies which have not yet become competitive in the market.

Support schemes must encourage the development of the most productive and efficient plants in appropriate locations. Support schemes should further promote technologies remote from the market through research, development and demonstration and capital support and not through higher financial support of electricity production that interferes with the proper functioning of the market. Moreover, one of the main targets of financial support must be to bridge the gap between demonstration projects and commercialization in order to bring the benefit of research, development and demonstration to the market.

B.2. If renewable energy sources require support post-2020, how do you think this can best be achieved with a view to achieving a cost-effective deployment?

Flexible, market-based approaches should be developed allowing Member States to make use of cross-border trading in electricity from renewable energy sources (RES-E). Financial support should address the aim to bring new technologies to the market and therefore be phased out over time. Mature renewable energy technologies need to be integrated into the regular energy market.

B.3. Do you think it would be useful to develop common approaches as regards Member States' financial support for renewables?

The current multiplicity of non-coordinated subsidy mechanisms in EU Member States stands in the way of competition in an internal market for energy, and leads to misdirected incentives to build installations at unfavourable locations. In a long-term consideration a convergence of national support schemes should be achieved for an efficient allocation of RES and for driving down overall RES costs, however without prejudice to the prerogative given by the EU Treaty to Member States to choose their own energy mix and as long as public money is not spent in an inefficient or ineffective way. Only convergent national support schemes are in line with the internal market approach by delivering a level-playing field for investment in renewable energy production, and cost effective RES deployment in respect of the raw material markets. Within the RES Directive, the Commission already set out an EU-wide framework to increase cooperation between Member States. Despite the potentials of increasing cost-effectiveness, only very few seem to be eager to make use of the available mechanism. BUSINESSEUROPE therefore calls on the Commission to carry out an analysis on the reasons why the cooperation mechanisms, as proposed in the RES Directive, have not been taken up yet by more Member States and also make recommendations how to overcome possible obstacles currently in place and thereby push for using the mechanisms already in place.

B.6. How do you see the relation between support schemes for renewable energy and the requirements of the internal electricity market for the period after 2020 against the background of a rising share of renewables?

It is essential to continue building a real European internal market for all energy sources, including renewable as well as conventional energies. The establishment of a comprehensive European internal energy market is a critical factor to ensure competitiveness and security of supply. Overall implementation of the European energy liberalization package is currently poor. The liberalization packages have not been adequately implemented in several EU Member States, which represents a serious obstacle in both delivering quality services and realizing responsible development strategies.

To enable the creation of a better functioning and single European internal energy market, market coupling is an essential tool that needs to be implemented in the area of electricity (as well as in the area of gas). Coupling of national and transnational markets, including a higher cooperation and convergence with regard to available support mechanisms, needs to make progress. The draft strategy should therefore provide a stable platform for activities leading to closer and more efficient cooperation between markets, resulting in the medium term in their integration into one single European transparent energy market.

B.7. Do national support schemes and differences between such schemes distort competition?

Support schemes are – per definition – distorting. However, in our view, some support schemes are more distorting than others, namely, if they directly impede power trade. The more the design of the support scheme excludes RES-E from the power market, the more distorting effects it has. Thus, a speedy integration of the renewable energy sources into the “normal” energy market would be the efficient way to diminish market distortion. The contribution of renewables to system stability and an obligation by all operators to participate in the balancing market would be important steps towards the system integration and therefore would – at least to a certain extent - contribute to a reduction of distortion.

The variety of existing support mechanisms within the internal market also creates distortions, impedes competition between renewable energies and between producers and creates barriers for cross-border trade and competition. The promotion of competition on the internal energy market as well as distortions on the feedstocks thus calls for enhancing the convergence of national support schemes in the long run.

C. ADMINISTRATIVE PROCEDURES

Articles 13 and 14 of the Directive lay down rules on administrative procedures, information and training.

C.1. Which following issues relating to administrative procedures, information and training do you consider acting as a serious impediment to further growth of renewables following Member States' implementation of the provisions of the Directive?

The Commission's proposal for “trans-European guidelines on energy infrastructure” provides a sound basis for further discussions on how to streamline procedures. Indeed, lengthy and complex administrative procedures create uncertainty in the state of project development and create avoidable additional costs and risks. Providing a standardised and transparent process (including all provisions and criteria, forms etc.) with one point of contact and a clear timeline would mitigate this risk.

Technical specifications should be harmonised and acknowledged across the EU to make use of best available technical knowledge and best practice. 27 different national technical specifications also mean cause huge, additional costs. Therefore, a push for harmonization offers a significant potential of cost reduction. Moreover, also education and training differ significantly between member states. Implementing harmonised health & safety standards, without prejudice to existing internal market rules, would help to set a high level of standards based on best practice from across Europe. This would help to reduce working risks and create a safe working environment.

Moreover, the ability to address the essential issue of public acceptance when it comes to the construction of new energy infrastructure is essential.



C.2. Which policy response to the problems identified above do you consider appropriate?

A standardization policy of power plant technology on the European scale would improve economies of scale and thus dramatically reduce cost, increase reliability, improve safety and create a virtuous cycle of experience exchange within Europe.

D. GRID INTEGRATION OF ELECTRICITY FROM RES

Article 16 of the Directive lays down a number of binding rules related to network development, access and operation in order to ensure that electricity from renewable energy sources may access the electricity network freely.

D.1. Do you consider, that any of the following national rules and framework conditions will still create obstacles to renewable energy production after 2020?

BUSINESSEUROPE calls for equal conditions for all generators irrespective of the generation technology when it comes to electricity grid connection: grid operators should in principle be obliged to connect all capacities and reinforce the grid in due time if necessary. If grid investment is delayed, market-based congestion management should be used with appropriate remuneration for operators participating in the congestion management. Equal conditions for RES and other generators (including highly efficient CHP) should also apply regarding the curtailment regime and balancing responsibilities when it is technically feasible.

D.3. With regard to system integration of wind and solar power, what measures do you consider most important to increase the flexibility reserve of the system?

Renewable energy is an increasingly important element of the EU energy mix. The future grid infrastructure must cater for stronger use of intermittent energy sources like wind or solar. This makes it necessary to increase capacity of electricity interconnections as well as conventional energy sources as a back-up when weather conditions reduce the effectiveness of wind and solar power.

Flexibility reserve is needed to cover periods when RES are not available because the wind is not blowing, sun is not shining, etc. This has to be addressed by investment in flexible generation capacity (including not only flexible power plants but also storage facilities) as well as investment in grid infrastructure and interconnectors. Sufficient investments in cross-border interconnection infrastructure are indeed crucial, particularly for interconnections of long-term economic European interest. Greater cross-border interconnection would facilitate greater integration of renewable energy sources. The Presidency Conclusions of the May 2007 European Council called for at least 10% of electricity and gas interconnection capacity by 2010, however, the progress made is behind the aimed level.

Furthermore, the role of ancillary services markets need be evaluated more closely. These markets could be integrated with neighbouring countries and opened to further participants.

E. MARKET INTEGRATION

Current national support schemes expose renewable energies to market signals to various degrees. In many cases, these support schemes nevertheless result in parallel "systems" for conventional and for renewable generation which are largely unresponsive to each other. The following questions ask in which way this could be addressed in a post-2020 perspective where renewables will represent a significant share of the market.

E.1. In which ways could renewable energy be made responsive to market signals?

As renewables become a more and more substantial part of the generation market and mature technology, first priority must be the full integration into the energy market, i.e. more and more mature renewable energy technologies compete with all other types of generation.

In the mid and long-term, renewables should also contribute to the system stability and become a balancing responsible party and if they can provide reliable capacity, they should get the possibility to offer balancing services to TSOs. Overall, the same balancing rules shall be applied to all operators.

E.2. How can it be ensured that market arrangements reward flexibility?

Flexibility is especially obtained by some additional backup capacities and demand side management and should be rewarded in the energy market in a technology neutral way, in order to stimulate the necessary investments. Due to structural changes, peak and trough demands have become more extreme and frequent in Europe, leading to strong amplitudes of consumption. Development of policies for modulating the demand will limit investments in peak production tools, which often are uneconomical and produce additional emissions. For the take-off of Demand Response, however, it is necessary to ensure equal market access of power generation and demand response programs.

F. RENEWABLES IN HEATING AND COOLING

F.2. What pathways do you consider to be the most promising for further increasing the share of renewable energy in heating and cooling beyond 2020?

Renewables can play an important role in the supply of heating and cooling. BUSINESSEUROPE pleads for an approach that supports the growth of these sources without leading to additional burdens for the energy market or distorting the biomass markets.

A wide range of technologies is already available for renewable based heating and cooling. Options include heat pumps, solar thermal, geothermal or biomass-based technologies. Combined heat and power generation (CHP) is also an important option for using renewable sources for heating and cooling purposes, as it provides high-efficiency, well-proven technology. CHP systems may be used in existing infrastructure e.g. by co-firing or by establishing new local supply systems. This whole range of



technologies must be taken into account for achieving future goals. Such an approach should further take into account the national circumstances and biomass resources in each Member State.

F.3. How do you see the interaction of promoting further use of renewable energy in heating and cooling and enhancing energy efficiency in this sector?

The development of sustainable options for renewable energy needs to be considered in the wider context of a transition programme for the sustainable use of energy. Energy efficiency is the most cost effective way to reduce CO₂ and improve energy security and therefore is a key driver. Thus, EU energy policy must result in a policy focus on efficiency in industry, buildings and transport as a major priority.

G. RENEWABLES IN TRANSPORT

G.1. What do you consider to be the main barriers against a stronger uptake of renewable energy in transport?

Fuel supply – just like electricity supply – needs to be placed on a broader basis of energy sources in the longer term. All alternative options to petrol and diesel must be assessed, not only for their economic and environmental results but also for their technical usability and long-term availability. In this respect, it is above all essential to evaluate new fuels in terms of their sustainability criteria and in particular of their CO₂ performance throughout their production and use (“well to wheel”). This evaluation must be carried out against a global background.

Considerable R&D measures are still needed in order to bring down the costs of renewable technologies and alternative fuels. Further optimization of fuel qualities in connection with the development of highly efficient engines requires an integration-oriented approach to research in order to exploit this potential. In addition, the EU lacks a harmonized alternative fuel infrastructure, which results in a fragmented market and high-costs. An EU-wide strategy for the promotion of alternative fuel is essential for their uptake on the market.

H. SUSTAINABILITY

H.1 Do you think that additional sustainability criteria are necessary in the post-2020 period?

Sustainability criteria for solid and gaseous biomass are acceptable if they are based on the existing principles and criteria for forest management as defined by Forest Europe and are verifiable. Next to Sustainable Forest Management, they should contain strong GHG savings and efficiency components.

Furthermore, attention should be paid to the aspect of competition for raw material use (such as for electricity, heat, fuels, use as material, food). Promotion of renewable energy sources such as biomass should not create market distortions and result in changes in the availability or price of raw materials used for example by the pulp and paper, chemicals and food industries. For instance, the chemicals industry and the rest of manufacturing industry use cultivated raw materials from agricultural and forestry

products such as meat, plants and timber and their derivatives such as fats and oils, cellulose, starch, sugar and fibre in their production. Pure combustion removes valuable raw materials from a production chain which could have been used as material in manufacturing industry with much higher added value. Substitutes would primarily involve greater use of fossil raw materials, which would be inconsistent with the ecological approach of the entire initiative. Sustainability criteria are essential to ensure that biomass is environmentally, economically and socially sustainable.

An adequate framework of sustainability criteria should ensure that only biomass is promoted which achieves an appropriate performance in terms of environmental, economic as well as energetic indicators. Hence, types of biomass which do not achieve these performance indicators should be excluded from public support programs.

I. REGIONAL AND INTERNATIONAL DIMENSIONS 13

The cooperation mechanisms of the current Directive offer a framework for cooperation between Member States and with third countries. A number of initiatives are currently under consideration for putting regional coordination in practice, both within the EU as well as with neighboring regions.

I.1. Do you consider current rules for cooperation between Member States sufficient to fulfill their purpose, i.e. realization of cost-efficient renewable potential in the EU?

See answers to questions **B.3** and **B.6**.

I.4. Which measures do you consider appropriate and necessary in order to foster cooperation with third countries in this area?

A European Renewable Energy Strategy must be seen as integrated element of the overall EU energy policy, including the external dimension. In this respect, the European Union needs to strengthen its ability to dialogue with one voice with (potential) key partners and third countries in general. Where possible, dialogues should promote reciprocal investment, lead to more trade liberalization in respect of intellectual property rights and include issues relating to broader economic and social development.

J. TECHNOLOGY DEVELOPMENT

J.4. How successful do you consider the existing measures have been and which have been the main drawbacks?

It is very useful to have the SET Plan for the further development of technologies. Regarding the communication and the implementation of results it could be even more successful.