The 2030 Energy & Climate Package for the EU: the challenges that lie ahead – The utilities view

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New targets: from 20/20/20 (+10) to 40/27/27 (+15)

Decisions taken by the European Council

	Greenhouse gas emissions	Renewable energy	Energy efficiency		Inter-connectivity
until 2020	**-20 %** reference year 1990	**20 %** of energy consumption	**20 %** absolute reduction compared to business as usual	+	**10 %**
until 2030	**-40 %** reference year 1990	**27 %** of energy consumption	**27 %** absolute reduction in compared to business as usual		**15 %** from national capacity

- only the CO_2 reduction target will be translated into national binding targets
- renewables and efficiency targets are EU level targets
- energy efficiency target is only indicative
- new governance structure to coordinate EU and national policies → transparency, predictability, regional cooperation

EU Guidelines on State aid for environmental protection and energy with significant impact

Approved on 9 Apr. 2014 for period **1 July 2014** until **31 Dec 2020** by EU Com

Guidelines are binding framework for EU member states

- **Direct marketing** & **auctioning** for promoting RES
- Transition phase 2015/2016 **at least 5%** of planned RES by **competitive bidding** process
- Allowance of **capacity mechanisms**
- **No incentive** to generate at **negative prices**
- **Substantial relief** for energy-intensive **industries** with international exposure
- Covering **aid** for e.g. **RES**, **exemptions** from **taxes**, tradable permits

More competition by tender schemes

- The new **EU guidelines** make **auctions/ tender schemes** plus self balancing **obligatory** for mature renewable technologies
- Targets of EU are **cost degression** and **further market integration** of renewables
- This has two major effects on Renewable project developers
  a) **Higher risk** in project development
  b) Potentially **lower remuneration** levels
- The order of magnitude of these effects on RES developers and operators depends on **three key issues**
  I. **Market design** of future auctioning schemes
  II. **Regulated demand** and **supply potential** of RES
  III. **Quality of RES** sites in future project development pipeline

  → **Detailed Market analysis will be necessary before Market entry**

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Quality of RES projects in future development pipeline

- Competition on purchasing power

Capex

Opex

- Competition on operational excellence

LCOE
€/MWh

- Competition on most favourable sites

Site Quality

Capital cost

- Competition on lowest cost of capital

→ Different market players have different (dis-)advantages in competition. Key is access to favourable sites. A level playing field in auction reveals the best investor type for each RES technology.

Cooperation has to increase in future
Status quo of cooperation mechanisms

- **Norway and Sweden** – joint support scheme
  - Since 1 January 2012, both countries operate a joint certificate scheme

- **Ireland and UK** – planned joint project
  - Plan to export renewable power (onshore & offshore wind) from Ireland to UK up to a maximum of 5 GW

- **Luxembourg**
  - Luxembourg expressed interest in cooperation mechanisms, given the need to imply those to reach its 2020 targets

Many MSs have indicated their interest regarding the use of cooperation mechanisms…

…nevertheless, currently only few of them pursue the implementation actively

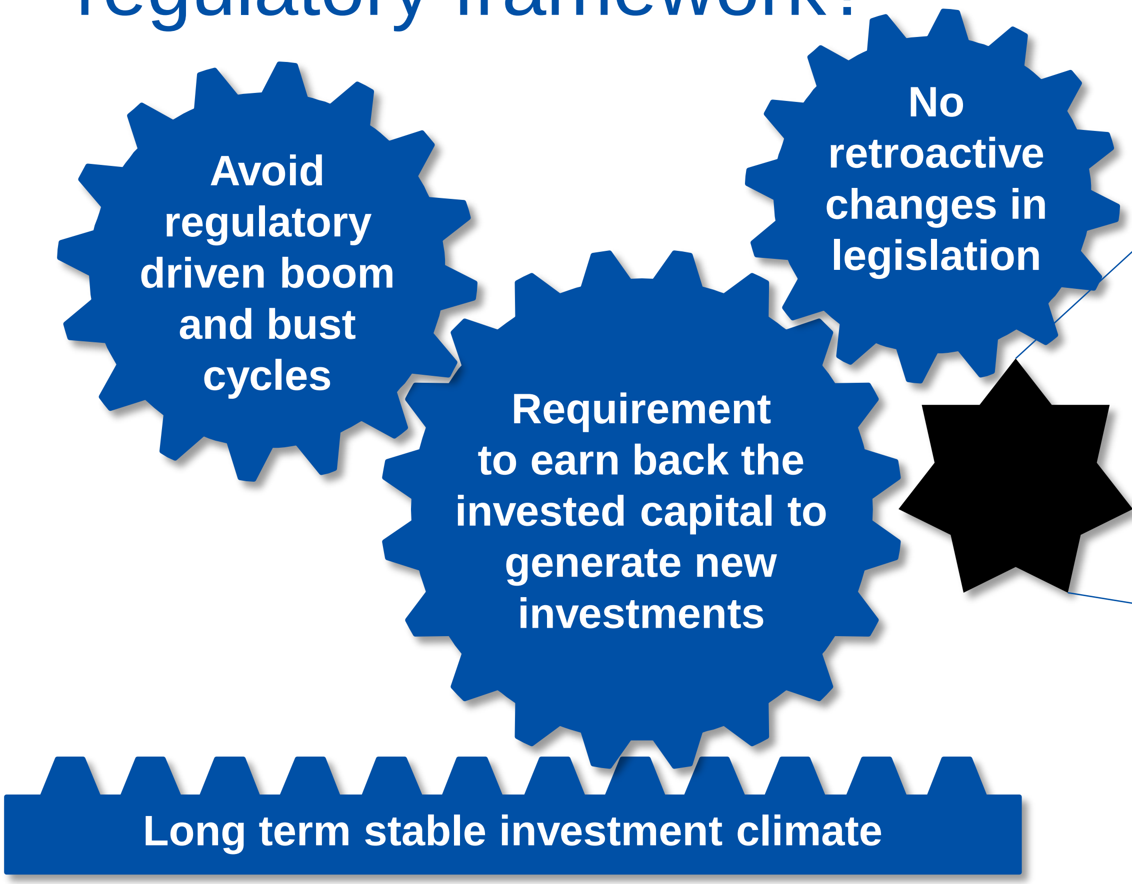
- **Estonia** – statistical transfer
  - Estonia has developed a draft legislation on using statistical transfer as selling country

- **Netherlands** – opening up of SDE+
  - The Dutch government is investigating possibilities to open up the domestic SDE+ (statistical transfer, joint projects or both)

- **Italy** – legal provisions to facilitate cooperation
  - Italy has developed legal provisions to allow cooperation even before (Law 79/199; Law 387/2003) and after 28/2009 EC (Law 28/3 2011)

Source: Ecofys, own illustration

What do investors expect from an effective regulatory framework?



...and what not (examples)

- Spain **curtails retroactive feed-in-tariffs** and invents power-generator-tax
- Czech Republic ends feed-in-tariff support for all RES imposes a **retroactive tax** on PV plants
- Italy **changes** feed-in-tariff for large PV **retroactive** as well
- …?

Investors can **manage project & market risks** but not regulatory risk!

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Conclusions…

- ....EU 2030 targets are ambitious and contain non binding national RES targets
- …EU COM favours a shift from feed-in-tariffs to RES market-integration and competitive bidding processes
- …New guidelines lead to higher development risk and potential lower remuneration levels
- …Cooperation between member states becomes more important, reducing additional generation costs and capital expenditures
- …Partnership model in project development and operation becomes more attractive and for smaller players most likely
- …Stable and wise regulation to ensure RES investment indispensable