



10th Workshop of the International Feed-In Cooperation (IFIC) **"Perspectives on RES support scheme reforms particularly in the context of the upcoming environmental and energy state aid framework 2014-2020"**

On 24 October 2013 more than 80 representatives from EU Member States and organisations of the renewables sector came together in Brussels to discuss recent developments of the RES framework on the European level. The workshop focused on reforms of RES support schemes in the context of the upcoming reform of the environmental and energy state aid framework 2014-2020. In this regard the workshop particularly looked at the three main elements in the current discussion on the upcoming reform: tendering, technology neutrality and the opening of national support schemes.

The following remarks highlight the main conclusions resulting from the workshop.

Session 1: RES support schemes in the context of the current discussion of reform of the environmental and energy state aid framework 2014-2020

The discussion showed that the implementation of the currently debated main elements of the reform of the environmental and energy state aid framework 2014-2020 would mainly result in a limitation of support schemes to a technology neutral tendering scheme (auctions), combined with an uncontrolled opening of national support schemes. Furthermore, the debate showed that this could create meaningful contradictions with existing EU law, particularly the RES-directive 2009/28/EG and Member States' competence to determine their national energy mix.

In this session, Maria Kleis (the Regulatory Assistance Project, RAP), Anne-Maria Ide (presenting on behalf of German Federal Ministry for the Environment) and Ivo Schmidt (DG Energy, Renewables and CCS Policy Unit) exchanged views on the upcoming reform. Ms Kleis underlined that the guidelines will significantly influence investments in the RES sector and that the environmental and energy state aid rules constitute a very meaningful framework with regards to the further design of national RES support schemes. The debate showed that the boundaries defined by the currently discussed elements of a reformed state aid framework would create meaningful contradictions with the RES-directive 2009/28/EG, in particular Art. 3, foremost regarding Member States' flexibility to adjust the support schemes for renewables to national energy policy priorities as well as the voluntary basis to support foreign renewables deployment. The discussion showed that regarding Member States' bilateral or multilateral implementation of the Cooperation Mechanisms, there is no "one-fits-all" solution, but costs and benefits for the participating countries have to be carefully taken into account in order to develop balanced win-win solutions.

Session 2: Spotlight on tendering

So far, practical experience of tenders and auctions have shown mixed results. Under specific circumstances tenders have shown to be successful in supporting renewables. However, due to the lack of experience, identifying tendering as the "default" support instrument for all technologies and markets seems to be inadequate.

The presentations held in session 2 showed that tender and auction schemes are highly context sensitive. Their success depends on creating sufficient competition among bidders and on several external factors, such as the general attractiveness of the market and existing supply chains. It was highlighted that one of the main challenges is the effective implementation of projects after they have been awarded a contract. Numerous projects are not built, for instance, because bidders offered too low prices. Penalties can address this issue, but at the same time they also may increase risks for project developers or discourage other bidders, resulting in decreased competition. Furthermore, a presentation by Lena Kitzing from the Technical University Denmark showed that support levels determined by the tender can differ strongly, depending on the structure of bidders and the specific design of the tender. In some cases, tendering has even resulted in high support costs and considerable over-compensation. Reflecting on experiences with tendering in the EU and beyond, auction expert Corinna Klessmann from Ecofys emphasised that since countries are still experimenting with renewables auction designs it is too early to conclude on best practices for tendering and the establishment of tendering as a blue-print model for the support of renewables in Europe.

Session 3: Spotlight on technology neutrality

Investments in innovative RES technologies are needed to meet medium- and long-term renewables and climate targets. Moreover, technology diversification is important for reasons of energy security. Pure technology-neutral support is not capable of triggering such investments and can lead to significant overcompensation. Therefore, technology-neutral support does not seem to be suitable to be the standard approach to supporting renewables.

Discussions during the workshop showed that only support specifically targeted at less mature technologies has been able to trigger necessary investments, spurring the development of innovative technologies. Moreover, in the past, cost curves of RES technologies have shown a vast downwards development. Michael Taylor from the IRENA Innovation and Technology Centre specifically highlighted the tremendous drop of support costs for solar-PV technologies in recent years. Gustav Resch from the Vienna University of Technology showed that technology-neutral support schemes might even increase the required support cost in the mid-term. He explained that as soon as less mature (and thus more costly) technologies are required for a country to meet the 2020 target, cheaper technologies gain windfall profits due to the uniform support level for all technologies. Martin Johansson from the Swedish Energy Agency explained that the Swedish-Norwegian scheme has increased cost-efficiency regarding the support costs in Sweden. Nevertheless, the discussion showed that the Norwegian-Swedish case is very specific due to its low cost-recourse potential curve. Josche Muth from the European Renewable Energy Council highlighted that technology neutrality is not the best way forward for bringing down the costs for deployment of new technologies. Both, push factors (such as R&D) and pull factors (such as support schemes for renewables) are required to deploy a

wide variety of technologies. Participants also stressed that the ETS only would not be able to trigger sufficient investment in renewables to reach long-term European energy policy goals. Overall, the discussion showed that while technology neutral support can be an adequate option for more mature technologies, the effectiveness and efficiency of technology neutral support highly depends on the specific market and on the maturity of technologies as well as on national energy policy goals. Pure technology-neutral support does not seem the right way to reach European renewables goals, particularly with a view to a longer-term perspective.

Session 4: Spotlight on opening of support schemes

Mandatory, uncontrolled opening of national support schemes might lead to distortions in the distribution of costs and benefits, which might in turn endanger public support for renewables.

Furthermore, such an approach might result in a "race for subsidies", ultimately increasing overall support costs in Europe. In contrast, the existing Cooperation Mechanisms provide flexibility and allow for tailor-made win-win solutions.

The presentations and interventions showed that the concept of opening of national support schemes is not a new discussion. Many of the arguments have already been brought forward in prior debates during the negotiations of the current RES-directive 2009/28/EG and they are still valid: An uncontrolled opening of national support schemes would result in decreased public acceptance for RES support, if consumers' support for renewables was invested in installations outside of their country. Moreover, a race for subsidies would most likely take place in which Member States compete for best sites. Mario Ragwitz from the Fraunhofer Institute explained that this would result in increased overall support costs in Europe due to increasing windfall profits. In addition, a full mandatory opening of support schemes would jeopardize Member State's energy mix competence as stipulated in the Lisbon Treaty. André Poschmann from the German Federal Ministry for the Environment, also involved in the negotiations of the RES-directive 2009/28/EG, explained that the Cooperation Mechanisms had been introduced in order to find a balanced approach between Member States. In the discussion it was pointed out that many details, particularly on the different costs and benefits, have to be negotiated between the parties involved to reach win-win solutions. In contrast, a mandatory opening of support schemes would not allow for such a process. Similarly, Poschmann recalled that the main reason to introduce the Cooperation Mechanisms was to increase flexibility for Member States. Nonetheless, Holger Gassner from RWE Innogy GmbH agreed with Poschmann that Member States have been hesitant to implement the Cooperation Mechanisms so far. Both underlined that their use is likely to increase significantly towards 2020 when the target trajectories of the RES-Directive become steeper. The discussants made clear that in order to trigger the implementation of the Cooperation Mechanisms, and of Joint Projects in particular, 2030-renewables targets are crucial in order to provide sufficient investment certainty for Member States and project developers beyond 2020.