

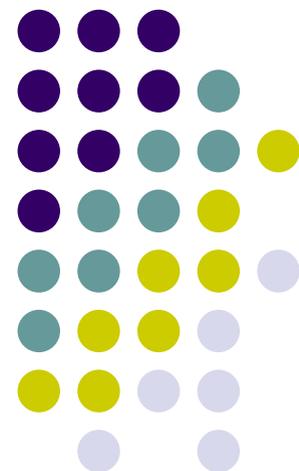
Introducing flexibility to reach the EU 20% renewable energy target

Analysis of Commission proposal

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Method of analysis



- Presentation of the general philosophy underlying the Commission 's proposal
- Analysis of the main potential problems raised by a green certificate trading scheme in general
- Analysis of how the directive answers those problems, and identification of the remaining problems
- related matters (article 8-1)
- possible ways out

The guarantees of origin (GO) system (1)



- There are two „flexibility mechanisms“ in the Commission’s proposal to deal with heterogeneity of Member States (MS) with regard to national RE targets and potentials:
 - GO trade within the EU
 - Import of RE from neighboring countries.
- Objective: allow MS to reach national targets at lower cost by getting RE from countries with cheaper production capacities.

The GO system (2)



- Articles 6-10 introduce a system of transfer of electricity and heat „productions“ from renewable energy (RE) between MS:
 - mandatory access to the GO system for installations doing
 - heat production equal or above 5 MWth (optional for smaller plants, same treatment for trading)
 - electricity production
 - MS can account new RE only (article 9-3) produced outside of their territory towards their national target by buying GO from other MS through two trading levels:
 - Trade of GO between MS : MS-to-MS trade.
 - Trade of GO between persons (private operators) : P-to-P trade.
- Article 5.9 introduces a GO system for RE produced in third countries that is transported to and consumed in the EU.

Main problems raised by a GO trading scheme in general



- Problem 1 : exports to the expense of the national objectives:
 - Export of RE subsidized in one MS (e.g. through feed-in tariffs or investment subsidies), but counting towards another MS's target
- Problem 2: windfall profits for RE producers:
 - Incentive (e.g. onshore wind) to export at GO price (determined by green certificate price in other MS or marginal cost of RE production) rather than being paid at cost plus through feed-in tariff
- Problem 3: excessive costs for MS having to buy GOs:
 - If obliged to buy GOs to meet national target, MS might have to pay for marginal costs of most expensive technologies (PV).

Problem 1 : exports to the expense of national objectives



- Article 9-3 :
 - implies that only new facilities can trade their GO
 - thus existing facilities and especially hydro facilities are not concerned
 - **does it apply to trade between MS or trade between a MS and a private party? We suppose that yes but that will have to be specified in the directive**
- Article 8-1
 - implies that GO from subsidized facilities can 't be exported at private level
 - except facilities benefiting of investment subsidies
- **Thus 2 main categories of potential exporters:**
 - new non-subsidized facilities : mainly concerns the cheapest technologies (onshore wind)
 - new investment-subsidized facilities.
- Article 8-2
 - implies that once exports is authorized, the whole production from a facility belongs to the importing MS
- **Consequences : remaining risks of uncontrolled export**
 - high risk that the cheapest technologies might choose GO trade instead of FIT
 - thus a high risk for some MS to see their cheapest RE potential going abroad, being left with the highly subsidized technologies



Problem 1 (2)

- What tools does the directive give to a MS that doesn't accept those risks ?
 - Article 9-2 : a MS can refuse exportation under certain conditions
 - questions raised:
 - is that mechanism compatible with EC rules (TEC art.95)?
 - Can a MS forbid export on the ground that the achievement of its national objective is jeopardized ?
 - What kind of « prior authorisation mechanism » is allowed?



Problem 2 : windfall profits

- When will a RE producer choose GO trade instead of subsidies?
 - When he thinks that GO prices will allow higher profits than FIT.
- Why should the GO price exceed the level of subsidy of cheap technologies?
 - Because it is set by the marginal cost of RE production, which, after a while, is no longer the cheapest one, for instance when the best wind locations are all taken.
- **Thus resulting in risks of windfall profits**
- Article 8-2 incites to resort to long term deals
 - which can limit the problem but doesn't solve it.

Problem 3: excessive costs for MS



- How high can GO prices go ?
 - There is a risk of reaching the cost of the costliest technologies (e.g. PV)
- That problem also concerns MS-to-MS trade
- Can MS be forced to buy GO at any cost ?
 - In 2020, probably yes to avoid failing their objectives
 - before 2020, the answer depends of the legal implications of articles 3-2 and 4-3
 - articles 3-2 & 4-3 : if a MS doesn 't reach its intermediate target, can it be obliged to resort to the GO market?



Related matters

- Article 8-1 implies that subsidized facilities **have to** request GO although those are right away cancelled:
 - It aims at basing the MS-to-MS trade on GO, doesn't it?
 - Why not just exclude them from the GO system? It would save money and useless administrative procedures.
 - Why not simply exchange MWh between countries without using GO?