

Prof. Catherine MITCHELL

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Subject: EURELECTRIC Comments to the Open letter of European Economists on market premiums To Commissioner Oettinger and Joaquin Almunia

Dear Prof. Mitchell,

We have read, with great interest, your open letter addressed to Commissioners Oettinger and Almunia. Although the State Aid Guidelines EAEG are now 'a done deal' EURELECTRIC believes that the issues you raise are of a more general nature and deserve to be discussed among all stakeholders, experts, and policy makers. This discussion is also about 'setting direction', and the path we engage up to 2020 and beyond.

A Chatham House lunch will take place on 11 June with some of our members in order to discuss these points. We would therefore encourage you to join us around the table. If you are unable to travel we offer the possibility of a web conference connection.

We suggest the following points to be addressed, and indeed we have from our side many detailed comments:

1/ You consider the move from fixed feed-in and long term contract based investment in RES towards a 'premium' model as having an adverse effect on the further development of these technologies.

We believe, on the contrary, that a **progressive move towards more market** based schemes is crucial in order to ensure that a large part of mature RES technologies is integrated into the market. Without putting RES into question, it will, on the contrary, increase their competitiveness, lower production costs, contribute to improved forecasts, thus lower overall system costs, and can further promote aggregators markets etc.

2/ You focus on the financing costs from a **technology developer perspective** only. We believe that you neglect the market – but also the customer perspective. The current technical and economic challenge is not exclusively any more to promote bulk energy production by infant renewable technologies but also to foster their efficient integration in the market. That in turn, requires RES producers to be exposed to market signals of power, so that they are built for a real demand, can provide reliable production and contribute to regulating the system. Furthermore, RES support schemes should be designed in such a way that they do not interfere with the operation/dispatching decisions. Continuing current FIT

systems as such would on the contrary further aggravate these distortions to the energy market and increase end use costs further.

3/ The open letter reveals a **static, not a dynamic approach with regard to the type of support along the technology maturity value chain**. Once technologies further mature and get deployed they can and should be gradually exposed to market risks, without leading to a cost increase. This corresponds to shifting risk from society to the investors. A dynamic approach would for example see mechanisms that avoid market risks, like FIT, applied at only a very specific moment of the technology learning curve. The reduction of investment costs has been impressive in particular for technologies like PV and onshore wind. There is thus a need to link cost development and deployment to support. Moving away from FIT towards more market-orientated support schemes would indeed lead to an increase of financing costs but this increase is much smaller than the cost decrease due to the reduction of investment costs.

4/ We agree that FIP is not solving all problems. But different from the authors of the paper we see FIP a step in the right direction, towards more market driven growth of Renewables. It is essential that RES developers should bear a fair and efficient share of the market risks associated to the growth of RES generation. We believe that **providing income stability may better be achieved by non-energy related subsidies, for instance, support for capital investment (€/MW) instead of produced energy(€/MWh)**.

To conclude: EURELECTRIC believes that Renewables are central to Europe's ambitious decarbonisation agenda, should not be exposed to retroactive change, but deserve technology push and pull, primarily through the enforced ETS as well as Research and Development Support, after 2020. EURELECTRIC calls this the 'ETS plus' approach⁷. Before 2020 there is a need for a move towards more efficient support mechanisms such as 'premium' models (FIP), Green certificates and capacity auctions. The ongoing reforms in this direction in EU member states shed light on the economic constraints and the insight, that better schemes and a dynamic approach to all technology development are a better guarantee also for RES.

Kindly,

A handwritten signature in black ink, appearing to read 'Hans ten BERGE', with a stylized, flowing script.

Hans ten BERGE
Secretary General

c.c. Commissioner Oettinger, Commissioner Almunia

⁷ See EURELECTRIC Innovation Action Plan 2013, see Power Choices Reloaded 2013