European Federation of Local Energy Companies
Confédération Européenne des Entreprises Locales d'Energie

Brussels, 25 October 2012

CEDEC Position

European Commission Communication:
Renewable Energy: a major player in the European market

I. Introduction

CEDEC welcomes the initiative of the European Commission for a timely assessment of policy options for the deployment of renewable energy beyond 2020. Sharing the European Commission's opinion that also for the time after 2020 measures to foster the transformation of the energy system need to be taken, CEDEC agrees with the European Commission that the chosen pathway should give priority to continuity, stability and further growth of renewable energy sources.

CEDEC welcomes the analysis of four different policy options in the Impact Assessment accompanying the Communication. It is surprising however to note the difference in tone and even in underlying conclusions between the Impact Assessment and the Communication itself.

CEDEC believes that in order to reach the long-term objective of an energy supply mainly based on renewable energy sources, which has been identified as the so-called 'no regrets' option by the European Commission, some renewable energy technologies should continue to receive limited support beyond 2020. Additionally, legally binding targets for renewable energy, energy efficiency and greenhouse gas (GHG) emissions should be part of a post-2020 policy framework.

CEDEC specifically supports the effort by the European Commission to incrementally confer system responsibility to generators of renewable energy and to create a level playing field by taking into account all external costs related to the different technologies for all types of energy generation. CEDEC also shares the expectation of the European Commission for renewable energy technologies to reach competitiveness with conventional energy sources in the long term. However, special attention should be paid to sustainability criteria in a long-term perspective. As the European Commission rightly states, the climate objectives can only be reached through a gradual phase out of fossil fuels. From CEDEC's point of view, a medium to long-term phase-out of nuclear energy with its short and long-term risks for the environment should be considered.

II. Harmonisation of support schemes

Member States should also in the long term be allowed to develop their individual support mechanisms that allow for the optimal use of local and regional resources**.**

CEDEC endorses the European Commission's initiative to develop guidelines for a reform of support mechanisms for renewable energy sources. With a view to the envisaged European internal energy market, a certain harmonisation of conditions for support can be useful. Despite the possible competitiveness of some renewable energy technologies by 2020, support for certain investments according to the needs of individual Member States or particular technologies can nevertheless be useful.

The potential of renewable energy technologies consists in the decentralised generation in proximity of consumption centres. Certain types of technologies can be used where favourable conditions for the supply with energy resources or the suitable surfaces for generation exist. In the development of the guidelines for support schemes, the European Commission should therefore take into account that also beyond 2020 Member States should be able to exploit the full potential of renewable energy sources on their territory.

Based on the long-term targets for the deployment of renewable energy technologies, the European Commission should pay attention to a continuation of incentives. The exploitation of competitive advantages of the European Emission Trading System (ETS) can be one of the instruments. However, due to the inherent problems of the ETS (see below), it can make sense to allow for a specific support for renewables also beyond 2020.

III. Market integration of RES

In addition to the market integration, CEDEC endorses an approach which equally pursues a complete system integration of renewable energy, into an energy system characterised by security of supply, sustainability and affordability.

Under current market conditions, the further integration of renewable energy can cause specific challenges. Due to the low marginal costs of electricity produced particularly by wind energy and photovoltaic, conventional capacity can increasingly be crowded out of the market under the current merit order. However, for a transitional period conventional generation will be needed to balance out the variable generation of wind energy -and photovoltaic.

The intentions of the European Commission to push for a further integration of renewable energy into the market are generally welcomed by CEDEC. It seems however necessary to further develop and amend the design of the existing energy market with new mechanisms. In this transformation process special attention should be paid to reaching the renewable energy targets. Moreover, the generation of renewable sources should be integrated into the system of power supply. Finally, the system should coordinate the input of all generators, renewable and conventional, centralised and decentralised.

IV. Trade and Cooperation mechanisms:

In the promotion of trade and cooperation in the field of renewable energy, CEDEC argues that the focus for support should not only be on centralised large-scale projects.

CEDEC supports the promotion of trade and cooperation mechanisms as foreseen in the Renewable Energy Directive. In this context the European Commission in its text mentions centralised large-scale projects e.g. in the North Sea, the Mediterranean and Northern Africa. While these projects can make a valuable addition to the future energy supply based on renewable energy sources, an exclusive focussing on these projects is seen critically for a number of reasons.

For a centralised energy supply in Europe, thousands of kilometres of new transmission lines would have to be built. The costs for these investments can only be financed through higher electricity prices. While on the one hand the capital needs to be made available in the short run, investors can only anticipate a return on their investments for the long run. From CEDEC's point of view, it is therefore unlikely that the need for transmission infrastructure can be met by 2030 or keep up with the construction of large-scale power plants.

Therefore, decentralised renewable energy projects and centralised large-scale projects should be equally considered in European support policies as centralised large-scale projects. CEDEC believes that the reduced construction of transmission lines through generation close to consumption centres can generate macroeconomic benefits and local resources can be used where they are readily available.

In this context, CEDEC remains sceptical whether the economies of scale from large-scale projects in remote locations compensate for the increased effort in the transmission and distribution of the energy produced. For this reason, a cost-benefit analysis seems necessary, which strictly takes the long-term investments into account.

From CEDEC's point of view it is unnecessary to give priority to cooperation and trade in the field of renewable energy with large-scale projects. Decentralised projects can equally make a considerable contribution. The approach to foster cooperation through centralised projects in certain regions seems inadequate to sustainably promote cooperation and trade among Member States and third countries. CEDEC therefore encourages as a first step to assess the reasons for the little use of existing cooperation mechanisms in order to eliminate the cause for the negligence of these instruments.

V. Transforming European Infrastructure

CEDEC emphasises the European Commission's view on the increasing role distribution grids will play in the future energy system. Considerable investments will have to be made in this sector in order to adapt to an energy system based on renewables.

A large share of the energy generated from renewable sources is fed into the low and medium voltage grids on distribution level. As a consequence, the distribution grids have to be adapted to a new challenge of not only distributing but also absorbing energy. As rightly established by the European Commission, the deployment of smart grids and demand side management tools, will allow a real-time balancing between consumers, producers and demand of electricity on distribution level. Ultimately, smart grids will enable consumers to manage their energy demand and to save costs, while Distribution System Operators (DSOs) will have to ensure a secure supply.

As the main drivers of smart grid development, DSOs will need to dispose of the necessary access to information (data on consumers, their grid connection, their consumption and their local generation) but also adequate Information and Communication Technologies (ICT) in order to match supply and demand through efficient communication with producers and consumers. This requires large-scale investments as well as adaptations of national incentive-regulation schemes that enable DSOs for an active grid management.

VI. Policy Options

CEDEC is of the opinion that legally binding targets for the integration of renewable energy sources, increasing energy efficiency and the reduction of greenhouse gas emissions should be introduced in the policy framework for the period after 2020.

The deployment of renewable energy will continue to need specific support beyond 2020 and binding targets have proven to be a successful tool under the current policy framework. In light of the climate change targets of the European Union, this is equally valid for the increase of energy efficiency and the reduction of greenhouse gas emissions.

In this context, the European Emission Trading system is considered insufficient as a single means to continuously promote renewable energy, as it is presented in the second policy option in the Impact Assessment.

The ETS is a market-driven instrument and as can be witnessed at the moment, in times of economic downturn an over-supply of certificates leads to price signals that do not incentivise investments in low-carbon technologies. The ETS hence is a valid instrument for the accomplishment of the GHG emission targets. However, it should always be seen as a complementary means to reach the overarching climate change objectives.

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CEDEC Background information

CEDEC represents the interests of local and regional energy companies.

CEDEC represents 2000 companies with a total turnover of 100 billion Euros, serving 75 million electricity and gas customers & connections, with more than 250.000 employees

These predominantly medium-sized local and regional energy companies have developed activities as electricity and heat generators, electricity and gas distribution grid & metering operators and energy (services) suppliers.

The wide range of services provided by local utility companies is reliable, environmentally compatible and affordable for the consumer. Through their high investments, they make a significant contribution to local and regional economic development.

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