

European Commission
Directorate-General for Competition
State Aid Registry
B-1049 Brussels
Belgium

Brussels, 23 October 2012

Subject: HT 359 – Consultation on Community Guidelines on State Aid for Environmental Protection - EURELECTRIC's Response

Dear Madam, dear Sir,

EURELECTRIC, the Union of the Electricity Industry, represents the common interests of the electricity industry at pan-European level. **We welcome the willingness of the European Commission to engage in an ambitious state aid reform program and to consult stakeholders on this crucial issue.** We read with great attention the Communication COM(2012)209 published in May 2012, as well as the current consultation on the review of Community guidelines on State Aid for Environmental Protection.

As demonstrated in our RES Action Plan¹, the European electricity industry is committed to renewables. The development of RES will transform Europe's energy system, networks and markets. It represents a key investment opportunity for the power sector but will also pose unique challenges to the energy system. Our concerns focus mainly on the need to develop a legal and regulatory framework which allows a market-compatible and a concurrent development of renewable energy sources and conventional power in Europe and which does not distort competition. This letter develops in further details our concerns regarding this issue and constitutes EURELECTRIC's contribution to the consultation on community guidelines on state aid for environmental protection.

We are determined to make this change so that it leads to a carbon-neutral power supply in Europe by 2050. Renewable energy sources will play a major role in this regard, but EURELECTRIC is convinced that all technologies are needed to realize this transition in a cost-efficient way. We emphasize the need to foster a diversified low-carbon energy mix as an important means of delivering security of supply and promoting cost-effectiveness. Key elements in policy should be an effective Emissions Trading Scheme, an integrated European market, and the removal of subsidies for mature power generation technologies. **EURELECTRIC's main message is therefore that renewable energy sources need to be integrated into the energy market in order to have a competitive level playing field for all power production technologies.**

We consider the revision of the State Aid Guidelines as an important opportunity to contribute to this objective of integrating renewable energy technologies into the market and ensuring a least distortive support to the benefit of consumers.

¹ [EURELECTRIC Report "20% Renewables by 2020: A EURELECTRIC Action Plan", October 2011](#)

As mentioned in the Guidelines in paragraph 1.2(6) *“the primary objective of the state aid control in the field of environmental protection is to ensure that State aid measures will result in a higher level of environmental protection than would occur without the aid and to ensure that the positive effects of the aid outweigh its negative effects in terms of distortions of competition”*. In our view, it is high time to assess whether renewables support in Europe strikes the right balance between environmental protection and fair competition. The latter principle of avoiding competition and market distortions should also apply to any support for renewable energy sources which does not strictly qualify as State aid but which might have a similar impact.

The Commission’s Communication COM(2012)271 on Renewable Energy published on 6 June 2012 has raised similar questions. **EURELECTRIC agrees with the Commission’s general stance throughout the Communication, that RES support mechanisms should evolve over time and be compatible with market dynamics. RES technologies should be developed as an integral part of the broader energy system, and should therefore be integrated into the energy markets.** However, EURELECTRIC would have liked to see more concrete proposals from the Commission in this Communication with a view to leveling the playing field between renewables and other technologies as 2020 approaches. This consultation is an opportunity to reinitiate this debate.

As EURELECTRIC, we propose the following elements to integrate RES technologies into the market:

1. **RES technologies should carry out their scheduling and operation as any other generation technology, should participate in the wholesale markets and should be subject to equivalent obligations regarding grid connection, balancing, grid charges, etc.** In some cases this could require an adjustment of the support mechanisms to reflect the new costs imposed on RES generation (such as balancing costs).
2. Support schemes should expose renewable production to market conditions, which is not the case with fixed feed-in schemes.² Fixed feed-in schemes are only usable in cases with low volumes, and where low risk is extremely important for the deployment, e.g. for infant technologies. Some support instruments, such as feed-in premia and tradable certificates are more market-oriented and rely more on market dynamics.
3. **It is important progressively to phase-out subsidies for RES technologies that are reaching market competitiveness and broad deployment.** This should be performed in a way that is conducive to investor confidence (i.e. clearly signalling regulatory changes). At the same time, it is fundamental to learn lessons from past regulatory mistakes, to ensure that support mechanisms provide the right incentives, to ensure that all activities receiving regulated revenues obtain reasonable returns and that over-compensation is avoided. **RES support should favour least distortive instruments, i.e. those instruments which expose RES technologies to market dynamics combined with a renewed focus on RD&D support.**
4. **Better market integration not only requires an improvement of national policies with the aim of making renewable generation responsive to market signals. It also implies a greater convergence of national RES policies towards a more European approach in order to limit the fragmentation of the European single market and negative implications for its functioning. Cross-border trade, e.g. through the Cooperation Mechanisms of the Renewables Directive, should be facilitated.**

² Response to question 1.4 of the questionnaire.

In addition to the need to develop a more European approach for a cost-efficient RES development, we believe that the review of the guidelines should also be an opportunity to ensure that any public support for energy conversion installations granted in the framework of national policies (e.g. by using public funds or revenues from ETS auctions, granting tax benefits etc) is compatible with market integration and does not create competition distortions amongst installations in different Member States that belong to the same interconnected energy market.

EURELECTRIC would like to emphasise the importance of the Commission taking timely decisions on state aid approval. At present the process is often lengthy, which adds to the uncertainty of investing in renewable energy and can delay improvements to national support mechanisms. EURELECTRIC's members are major investors in RES, and would like to see approval periods shortened, as otherwise this is likely to add to the cost of investing in RES, due to the increased risk premia.

Last but not least, we notice that the increasing penetration of subsidised variable RES (mainly solar and wind energy) reduces the running and profitability of conventional power plants, which have to compete in the market. In order to remedy this situation and ensure security of supply, some national authorities have introduced or are considering the introduction of capacity remuneration mechanisms (CRM)³. If well designed, the CRM could be regarded as an additional market-based and non-discriminatory tool compatible with the existing energy market design that in this case rewards the service of ensuring generation adequacy. This service should normally be provided not only by generators (including storage) but also by demand response.

Although capacity remuneration mechanisms will in most cases not qualify as State aid, they should be closely reviewed to avoid any market and competition distortions.

Should you require any further information or clarification, please do not hesitate to contact Charlotte Renaud (crenaud@eurelectric.org; tel: +32 2 515 10 55).

Yours sincerely,



Hans ten Berge
Secretary General

³ [EURELECTRIC Report "RES Integration and Market Design: Are Capacity Remuneration Mechanisms needed to ensure generation adequacy?" – May 2011](#)