



25 September 2012

Renewable energies in a post-2020 perspective

KEY MESSAGES

- 1 European businesses strongly call for a more coherent and better coordinated energy and climate policy framework. Lessons learned from the 20-20-20 Energy and Climate Package need to be taken into account and cumulative burdens for industry must be avoided.
- 2 Investments in energy infrastructure, back up capacity and other flexible solutions (e.g. demand-side management, storage) are urgently needed to connect renewable generation, complete the internal energy market and enhance security of supply across Europe.
- 3 A significant push on market integration and cost competitiveness of renewable energies is needed in order to safeguard the transition of Europe's energy system as well as its industry. Therefore, market orientation and a technology-neutral approach must be part of the equation.

What does BUSINESSEUROPE aim for?

- A timely discussion on a post-2020 energy and climate policy framework is needed. Certain aspects of renewable energies policy, such as the question on target setting can only be discussed in a broader context.
- The EU's internal energy market must get completed by 2014 to ensure Europe's competitiveness and security of supply.
- A transparent public debate on the multiplicity of national support schemes is needed in order to encourage a more coordinated and cost-effective approach across Europe.
- The contribution of each renewable energy technology – not only in the electricity, but also other sectors – needs to be taken into account, such as heating and cooling.

KEY FACTS AND FIGURES

Net support expenditure for renewable electricity: € 6.1 / MWh _{demand} (2009, EU27)	80% of the 100 bottlenecks in grids are related to the direct or indirect integration of renewable energy sources	Renewables' share of gross final energy consumption: 12.4% (2010, EU27)
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BUSINESSEUROPE POSITION PAPER ON RENEWABLE ENERGIES IN A POST-2020 PERSPECTIVE

- **Towards a comprehensive climate and energy policy**

Renewables already make a significant contribution to the European energy mix and will have to play an important role on the EU's way towards a low-carbon economy. Therefore, BUSINESSEUROPE welcomes the European Commission's timely actions to evaluate the current approach to promote renewable energy for a period post-2020.

Today, we see a lack of coherence between the various energy and climate policy targets and instruments. A stronger coordination between the particular initiatives is urgently needed when greenhouse gas reductions, energy taxation, energy efficiency, renewable energy, the completion of the internal energy market as well as research and innovation are discussed. A future strategy on renewables must fit in a comprehensive climate and energy strategy, pursuing the goals of sustainability, energy security and competitiveness, including a strengthened focus on the mitigation of cost burdens on industrial consumers, vis-à-vis global competitors. Market orientation and cost-effectiveness but also predictability and flexibility must be the key principles of the future policy framework in order to particularly increase the role of the market for guiding production and use of renewable energy.

BUSINESSEUROPE has recently launched a comprehensive internal debate to develop a post-2020 vision for an EU energy policy. Due to the mutual influence of various policy instruments (e.g. EU Emission Trading Scheme, energy efficiency, energy taxation), certain aspects on the future policy framework for renewables, such as the question of target setting can only be addressed in such a broader context.

- **Establishing a comprehensive European internal energy market**

A well-functioning fully integrated energy market is decisive to ensure Europe's competitiveness and security of supply and is further a precondition for the proper integration of renewable energies. On 29 June 2012 the European Council reconfirmed that the EU's internal energy market should be completed by 2014, so that electricity and gas can flow freely. Although progress has been made in the last years, obstacles still remain. In view of European business, a clear push on the implementation of the European energy liberalisation packages is needed, as retardations in several Member States constitute serious obstacles in both delivering quality services and realising responsible development strategies.



To enable the creation of a better functioning and single European internal energy market, progress is needed in the implementation of market coupling (electricity and gas) as well as in the development of union-wide network codes in order to establish a harmonised regime with a technology neutral and balanced allocation of rights and obligations between TSO/ DSOs and grid users, without entailing competition distortion between Member States.

- **Providing adequate energy infrastructure**

A further significant increase of intermittent energy sources is only feasible, if existing infrastructure is used more efficiently and if the right price signals are set for power plant operation and future grid investments, not least to ensure reliability and also safeguard industries' baseload requirements. The development and expansion of grid infrastructure and interconnectors is urgent and should be complemented by the deployment of smart grid technologies, if technically sound and cost-effective. The challenge of adequate infrastructure development is, in fact twofold, as not only capacities need to be extended but also the capability of the energy networks' needs to be enhanced with smart technologies and an improved coordination of grid capacity calculation.

Some projects, in particular security of supply projects, may not be able to attract enough market-based finance and therefore may require some limited public finance provided by e.g. the Connecting Europe Facility to leverage private funding. Moreover, the currently rather limited capabilities on the financial markets need to be reflected on in order to allow investors (e.g. TSOs) better access to capital markets.

- **Enforcing market integration of renewables**

While the share of renewables in the generation portfolio is increasing, the delivery of a level playing field between all generators irrespective of the generation technology, in particular with regard to balancing and curtailment regime responsibilities, the conditions to offer balancing services to TSOs as well as electricity grid connection becomes even more crucial. In general, grid operators should be obliged to connect all capacities and reinforce the grid in due time if necessary and technically as well as economically feasible. In case of investment delays, market-based congestion management should be used with appropriate remuneration for operators participating in the congestion management. In addition, the stronger involvement of TSOs in the monitoring and management of RES integration should be evaluated.

Moreover, the RES "priority dispatch" needs to be thoroughly reviewed. In some Member States, cumulative effects of a priority dispatch and high feed-in tariffs for renewable energies have led to inefficiencies, grid instabilities and significant cost

impacts on the consumers. RES priority dispatching rules may hinder the completion of the Internal Energy Market and should be prudently applied.

Apart from RES market integration it is also a matter of technical regulations such as grid connection rules, which need to be harmonised and acknowledged across the EU to make cost-efficient use of best available technical knowledge and best practice.

- **Strengthening the viability and cost-effectiveness of support schemes**

In order to achieve market integration and greater efficiency of resource allocation, support schemes need to be designed in a predictable, more market-oriented, coordinated and targeted way. While ensuring investment security, this comprises not only a decrease and eventually a phase out of financial support for market competitive technologies but also a technology-neutral encouragement of cost-efficient solutions, not least to bridge the gap between demonstration projects, introduction on the market and commercialisation but also to allow a stronger focus on fostering basic and applied scientific research. Moreover, the current support schemes are lacking flexibility regarding the consideration of actual demand and market prices and thus cause significant market distortions.

The existing multiplicity of non-coordinated national subsidy mechanisms creates barriers for RES cross-border trade, impedes competition between renewable energies and between producers and leads to misdirected incentives to build RES installations at unfavourable locations. In a mid-term consideration a convergence of national support schemes is needed to ensure an efficient allocation of renewables and to drive down overall costs, however without prejudice to the prerogative given by the EU Treaty to Member States to choose their own energy mix.

In order to stimulate a more transparent public debate and encourage a more coordinated approach it might be very useful to provide and benchmark a certain level of comparative information about the various support schemes across Europe. Such a transparency initiative could also be addressed in the proposed Commission Guidelines for support scheme reform and further moderated and stimulated through a European Forum, based on the idea of the Amsterdam/Bucharest Sustainable Energy Forum.

- **Enhancing the cooperation between Member States and with third countries**

Within the RES Directive, the Commission already set out an EU-wide framework to increase cooperation between Member States. Despite the underlying cost-effectiveness potentials of the available mechanisms, only very few Member States seem to be eager to profit from them. Therefore, BUSINESSEUROPE welcomes the Commission's proposal to prepare guidelines to strengthen the use of cooperation mechanisms and thus promote cost optimisation.



Member States should set up cross-border intraday balancing and reserve markets in order to limit the costs for balancing and back-up capacities. This allows market operators to adjust imbalances in the most cost-efficient way, reduces overall costs of the energy system and contributes to the national security of supply.

BUSINESSEUROPE welcomes the Commission's intention to facilitate the trade in renewable energy with third countries, the connection of the European electricity system with third countries. The integration of renewable energies from e.g. the MENA region, however, firstly requires enough cross-border capacity within Europe and a well-functioning internal energy market.

Overall, the European Union needs to strengthen its ability to speak with one voice with (potential) key partners and third countries in general. Where possible, dialogues should promote reciprocal investment, leading to more trade liberalisation in respect of intellectual property rights and include issues relating to broader economic and social development.

For the purpose of increasing effectiveness and efficiency, the potential for optimisation in the current national policies and administration schemes must be exploited and a significant progress is needed to reduce the regulative risk for investors associated also with lengthy permit granting procedures. Planning and authorisation procedures need to be streamlined, harmonised and accelerated by strengthening cooperation between Member States and in particular between TSOs, which will monitor and analyse planning developments at regional level. Moreover, the interconnection of networks based on joint planning would allow a shift from national markets towards a single European energy market.

- **Market arrangements: Promoting flexibility and demand response**

In order to cover periods when intermittent renewable energy sources are not available flexible generation capacity and storage facilities are needed. Therefore, energy markets need to promote flexibility provided by back-up capacities, storage and demand-side management in an adequate and technology neutral way in order to stimulate the necessary investments. The development of policies which allow to modulating the demand could indeed limit investment needs in peak production tools, which are often uneconomical and produce additional emissions. For the take-off of demand response programs, however, it is necessary to ensure equal market access of all types of power generation and demand response programmes, giving industrial and commercial consumers the opportunity to curtail their energy usage during peak hours on a voluntary basis without endangering industrial production.



- **Shifting EU budgetary resources to foster technology deployment**

The EU's long term decarbonisation of reducing greenhouse gas emissions by 80-95% by 2050 compared with 1990 can only be achieved with a broad portfolio of technologies available not only for electricity supply and storage, but also for heating and cooling as well for transport. In fact, the whole range of technologies must be taken into account for achieving future goals. Therefore, measures are needed in particular to promote research, development and demonstration (RD&D) in the area of renewables and energy storage to bring down the costs of renewable technologies and alternative fuels as well as continuously ensure sustainability and scalability. In addition, public resources must be mobilised to advance RD&D in other areas of energy production, transport and distribution as well as energy efficiency. Therefore, the proposed resources for EU energy research and innovation funding instruments in Horizon 2020, now also including the SET-Plan, must not fall victim to the negotiations on the EU's future overall budget.

- **Ensuring sustainability of biomass and industrial competitiveness**

In view of the fact that the European Union will generate more than 10% of its total energy from biomass by 2020, a policy framework is needed that secures the availability and sustainability of the increased use of both solid and gaseous biomass.

An adequate framework of sustainability criteria should ensure that only biomass is promoted which achieves an appropriate level of performance in terms of environmental, economic and energetic indicators, based on the existing principles for forest management (Forest Europe) further comprising strong greenhouse gas savings and efficiency components. Otherwise, the type of biomass should be excluded from public support programmes.

Attention must be further paid to the aspect of competition for raw material use such as for electricity, heating & cooling, fuels, manufacturing and food. The pulp and paper, woodworking/furniture, chemicals, food and other industries are using cultivated raw materials from agricultural and forestry products (e.g. meat, plants, timber) and their derivatives (e.g. fats, oils, cellulose, starch, sugar, fibre) in their production. Pure combustion, however, removes valuable raw materials from a production chain which could have been used as material in manufacturing industry with much higher added value. Substitutes are rare and would primarily involve greater use of fossil raw materials, thus being inconsistent with the ecological approach of the entire initiative.

Consequently, the appropriate policy framework must ensure that the promotion of renewable energy sources such as biomass does not create market distortions and causes changes in the availability or price of raw materials used by pulp and paper, chemicals, woodworking and furniture, food and other industries.



- **Considering the full range of renewable energy sources and technologies**

The intermittency of various renewable energy sources and their increasing share indeed poses a number of new challenges which need to be openly addressed and discussed with all stakeholders, in order to find economically, environmentally, socially and technically feasible solutions.

Moreover, it is crucial not to focus only on electricity production of renewable energies, but also take into consideration other sectors, such as heating and cooling. Heat demand makes up nearly half of the total energy demand in the EU today, offering big potential to develop competitive and sustainable heat production and consumption across Europe.

Regarding the role of renewables in the transport sector, all alternative options to conventional fuels must be assessed for all transport modes. Several aspects, such as long-term availability, sustainability, economic and technical feasibility, efficiency as well as CO₂ performance need to be carefully evaluated to enable alternative fuels as well as alternative engine technologies to effectively contribute to a post-2020 energy mix throughout the complete transport sector.

The implementation of the current legislation and a coordinated alternative fuels policy in Member States, supported by robust standards and boosted infrastructure, are the basic foundation for any EU renewables post-2020 policy for the transport sector to be successful.

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