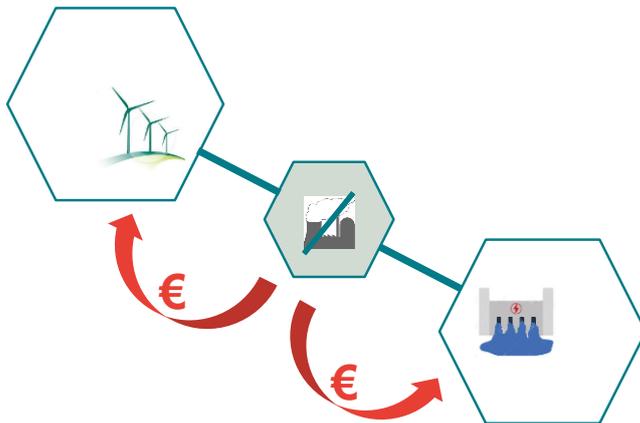


HOW CAN EUROPE BEST OPEN UP SUPPORT TO RENEWABLE ENERGY ACROSS NATIONAL BORDERS?

Proposed amendments to Article 5 of Adapted 2009/28/EC

Article 5 of the text proposed by the Commission in the recast RES Directive requires Member States to open their support schemes for electricity generated in other Member States. However, the text provides little by way of guidance for how this should be achieved in order to ensure efficient outcomes.



Energy Norway is proposing an alternative formulation of Article 5 to ensure the best results for climate, security of supply and green growth. Below we set out the rationale for our proposed amendments, before providing the proposed new text of the article.

The objective of opening RES-E support schemes

The economic ideal in terms of driving behaviour which would decarbonise the European economy at lowest cost to customers would be to have a reliable economy-wide carbon price which was consistent with carbon abatement goals. This would drive efficient abatement behaviour across the economy.

Absent such a carbon price, alternative mechanisms (such as RES-E support) are widely used to achieve decarbonisation goals. However, to avoid customers and society paying too much to decarbonise, such mechanisms should aim to replicate the effects which a carbon price would bring about to the greatest extent possible.

Each country having a national target and developing RES-E installations to meet it is far from optimum. It is likely to result in the EU as a whole developing RES-E installations in locations which are not the most cheapest or most productive. In

this sense, a European RES-target and cross-border opening of RES-E schemes both have a clear underlying logic. However, a scheme which seeks to minimise costs to customers should fulfil the following criteria:

- RES-E built first where there was demand capable of absorbing it, and where it could result in most CO₂ being abated. The incentives to building RES-E would diminish if too much of it is built in a region with insufficient demand or CO₂ emitting generation;
- incentives to develop interconnections between low carbon intensity countries and high carbon intensity countries; and
- a level playing field for generation built across countries.

The approach to opening of support schemes for RES-E to cross-border participation should aim for outcomes consistent with these results.

Investment incentives which adjust to the level of RES-E

Cross-border support schemes which result in ongoing investments in RES-E in a region irrespective of demand or the volume of CO₂ emissions from generation there would not be consistent with such a “least cost” outcome. It would create local overcapacity of RES. The risk of such an inefficient outcome can be reduced by linking cross-border RES-E investments to (i) the ability to export energy from new installations to the supporting country, and (ii) the likelihood of such exported energy resulting in abated CO₂ emissions.

It is not possible to “trace” whether energy produced in a particular installation. However, a view can be taken on the likelihood that energy produced could have an effect on the electricity wholesale market of the supporting country (as it would in a world with effective carbon pricing). This has been the approach discussed in Germany.

Specifying an exact approach to this across all EU Member States is likely to be difficult, and beyond the scope of text in a Directive. It is preferable to leave further details to EC guidelines and Commission assessments.

Incentives for investment in interconnection

Some may suggest that there are downsides to linking cross-border opening to the ability of RES-E energy to have an effect on the wholesale market in the supporting country. In particular, it has been suggested that this could limit the volume of cross-border RES-E support to the availability of interconnection in a country.

Interconnection investment today is largely driven by regulatory incentives, as interconnectors are typically regulated assets. However, the incentives for national regulators to approve new build depends at least in part on whether an interconnector would be well utilised.

At today’s carbon price, the expected utilisation of an interconnector between a low carbon density system and high carbon density system would be lower than in a world with effective carbon pricing. The implication of this is that investment incentives in such circumstances need to be strengthened.

This could be achieved through national regulatory arrangements, but could also happen through the process for applying for EC support for new infrastructure. In particular, the assessment of the costs and benefits of new infrastructure could take account of the value of carbon benefits under a higher carbon price.

It would be preferable to adapt interconnector development incentives in this way rather than leave out a link between RES-E investments and the physical potential for export.

Level playing field across borders

Cross-border opening should ideally result in RES-E being built where it is cheapest and most productive. This requires RES-E installations to compete for support on a level playing field. Differences should reflect genuine differences in costs for each installation.

There are many ways in which support arrangements can lead to a non-level playing field. For example, if RES-E installations in one country bid to receive a top-up relative to a national energy reference price, installations in another country may be at a disadvantage. This could be because their energy price was routinely lower than this reference price, leaving them to need more support and hence appearing higher cost in an auction. Similarly, if terms for connection or access to the network are less cost reflective in one Member State than another, it may create a non-level playing field.

The absence of a level playing field has been quoted frequently as one of the issues in the German-Danish solar PV pilot auction. Going forward, to the greatest extent possible, cross-border support regimes should attempt to ensure that cross-border opening is achieved in a way which adjusts for such differences, in order to ensure that RES-E is built where it is genuinely cheapest and/or most productive.

Proposed text

1. Member States shall open support for electricity generated from renewable sources to generators located in other Member States **to which they are interconnected either directly or, at their discretion, via other Member States**, under the conditions laid down in this Article.
2. Member States shall ensure that support for at least 10% of the newly-supported capacity in each year between 2021 and 2025 and at least 15% of the newly-supported capacity in each year between 2026 and 2030 is open to installations located in other Member States, **conditional on the supported capacity being likely to:**
 - a. **have an impact on the electricity wholesale market in the country where support will be funded; and**
 - b. **result in the abatement of carbon dioxide emissions from electricity generation in that country.**
3. **The rationale behind a decision not to open a support scheme under (1) above shall be notified to the European Commission.**

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4. Support schemes may be opened to cross-border participation through, inter alia, opened tenders, joint tenders, opened certificate schemes or joint support schemes.
5. Where a support scheme is opened to cross-border participation, the Member States involved shall, as far as possible, ensure that renewable installations competing for support face a level playing field in respect of all aspects of their costs, revenues and risks.
6. Local rules pertaining to the installation, connection and operation of new capacity shall apply equivalently in non-opened and opened schemes.
7. The allocation of renewable electricity benefiting from support under opened tenders, joint tenders or opened certificate schemes towards Member States respective contributions shall be subject to a cooperation agreement setting out rules for the cross-border disbursement of funding, following the principle that energy should be counted towards the Member State funding the installation.
8. The Commission shall assess by 2025 the benefits on the cost-effective deployment of renewable electricity in the Union of provisions set out in this Article. On the basis of this assessment, the Commission may propose to increase the percentages set out in paragraph 2.