

# Opening of renewable energy remuneration mechanisms

## Introduction

The German Renewable Energy Federation (BEE) generally welcomes Member States' increased efforts to think about their energy policies in a more European context, as well as working more closely with their neighbouring countries on a voluntary basis. To this end, a suitable framework is provided by cooperation mechanisms foreseen in the Renewable Energy Directive.

Given the regional differences in geographical conditions, as well as energy consumption load profiles, a further interlinking of national power systems certainly enhances opportunities for national and European system transformation. The Europeanisation of energy policies, however, cannot be an end in itself: it must follow a careful analysis of possible benefits and potential negative impacts of single measures.

BEE is sceptical of existing proposals that suggest opening national remuneration mechanisms to include electricity generated from renewable energy sources – one of the many ways Member States could cooperate with each other. The diversity in regulations of Member States' remuneration mechanisms leads to a range of questions and challenges for the practical implementation of opening up national systems. These include: securing the realisation of national RE targets, guaranteeing investor certainty, maintaining public acceptance, and providing a level playing field for all competitors, including small actors. So far, the proposals put forward do not address the risks and challenges appropriately, leaving many critical questions unanswered.

## Physical import

A fundamental prerequisite for opening national remuneration mechanisms is the physical import of electricity. There should be adequate proof provided that power generated in one Member State, but remunerated by another, is transmitted to the latter. There has to be a “real effect” of the electricity remunerated by the respective country “arriving” across the border in order to reassure its tax payers and the public of the positive effects of increased transnational cooperation when developing renewables. This is crucial for maintaining public acceptance for the energy transition process in the Member States concerned.

Both the existence of interconnection capacity between cooperating countries, as well as the assumption that transmission capacity for importing the amount of power in question would be available, are insufficient.

## Principle of reciprocity

In terms of practical implementation it is essential to adhere to the principle of reciprocity. This particularly applies to the size of the mutually opened segments, the distribution of costs and the framework conditions for competition.

### **Opened segment size**

It is important that mutually opened segments are of the same size in absolute (MW) rather than in relative (%) terms. There could be an imbalance in the distribution of projects amongst Member States as well as an imbalance in the distribution of advantages for businesses and societal benefits, especially when partners' levels of ambition in renewable energy development diverge greatly, and where there are advantages in terms of site factors.

### **Fair cost distribution**

Cooperation between Member States must include an appropriate and adequate distribution of costs. Unilateral burdens for national remuneration mechanisms must be avoided to minimize the risk of losing public acceptance of the energy transition. One option could be to have a maximum capacity threshold for the partner country's projects within the opened segment.

### **Level playing field**

The principle of reciprocity should also entail a guaranteed level playing field for all competitors in the opened segments of national remuneration mechanisms. Differences in national regulatory framework conditions, resulting in higher project costs than in the partner country, should not cause any disadvantages to competitors. Differences such as levies and taxes, limitations in site availability, grid connection fees, construction law requirements, emission regulations, environmental, water or fertilizer regulations, as well as prescriptions regarding technical and operational plant security must all be taken into account. Prior to concluding cooperation agreements, there must be maximum transparency regarding conditions in the partner country in order to prevent unilateral disadvantages for competitors.

### **Small actors and decentralization**

In opened remuneration mechanisms, small actors can expect to face several disadvantages: First of all, smaller stakeholders lack the necessary staff and finance capacities to gain detailed information about foreign systems and market conditions. Contrary to many bigger market players, previous knowledge is mostly limited or non-existent.

Secondly, it is likely that the opened schemes will be based on auctions, which, by design, discriminate against smaller actors, as these are less capable of spreading the risks of "sunk costs". Smaller actors will thus very likely abstain from bidding in opened segments. This counteracts the idea of a decentralized and community-oriented energy transition, which is, amongst other things, key to public acceptance.

### **Achievement of national renewable energy objectives**

Regardless of the choice Member States make for regional or bilateral cooperation, it is vital that they achieve their national RE objectives. Auctioning bears the increased risks that the awarded projects are not realized, and national objectives are not met.

BEE considers this risk to be even higher in opened auction systems, such as the one planned by the German government. Because of the differences in national regulation, cooperation contracts are likely to be an agreement based on the least common denominator. Therefore, if auctions' prequalification criteria and penalties are not strict enough, they will – as shown by experience – lead to low project realization rates.

### **Technology-specific opening**

Should Member States decide to cooperate and mutually open their remuneration schemes to include power produced in the partner country, they should follow a technology-specific approach. This provides clarity to investors, project developers and manufacturers. Likewise, it enables national governments to keep better track of progress made in implementing their national RE deployment objectives.

### **Key prerequisites for Member States' cooperation in developing renewable energy**

1. Ensure the physical import of power to the Member State which is paying for it; this will guarantee a “real effect” on the energy transition in that country.
2. Obey the principle of reciprocity: make sure the capacity within the opened segments of national remuneration schemes is equal. Prevent unilateral disadvantages for stakeholders in terms of cost and competitiveness.
3. Enable a decentralised energy transition in proximity of and accessible to citizens.
4. Maintain public acceptance for the energy transition.
5. Ensure the achievement of national RE objectives.
6. Follow a technology-specific approach to provide clarity and predictability for all stakeholders.