

Second State-of-the-Energy-Union Report

Of little use to the energy transition

Berlin/Brussels, 1st February 2017



The Juncker Commission acceded to making the EU the world number one in renewable energy. The Energy Union was devised as a substantial vehicle that would drive towards and attain this goal, together with the development of a coherent and ambitious climate and energy policy up until 2020 and beyond. The EU vice president in charge of the Energy Union, Maros Šefčovič, declared 2016 to be the “year of delivery“, and, certainly, the Commission has actually delivered over 4,000 pages of proposals for future EU climate and energy policy, officially known as the Clean Energy for all Europeans package. The second report on the State of the Energy Union, presented on the 1st February 2017, should provide an account of both the achievements up until now, as well as the points that need to be strengthened in the future.

Our current conclusion: The Commission, and in particular VP Šefčovič, has engaged in extensive talks with Member States’ (MS) governing bodies and, with the Winter Package, presents proposals that **slow down the chances and possibilities of an energy transition towards a system based on renewable energy and energy efficiency.**

Despite some positive approaches, many of the points are aiming too short and some even take a wrong turn. Proposals how the *Energy Union* has fostered the energy transition or might accelerate it in the future are barely addressed in the Winter Package. Member States are hardly eager about the 2020 target achievement; on the whole, the EU is lumbering towards the 2020 goals at a very slow pace. It seems that **the presented interim report unfortunately continues to talk down this risk**, not to mention initiatives for measures that overcome the current stagnation. There is certainly little sign of a new momentum triggered by the Paris Climate Agreement.

Whoever had hoped that the Commission, in adherence with the Paris Agreement and in light of the continually sinking costs of most renewables, would attempt to aim higher than the existing far too low 2030 objectives is going to be disappointed. The Winter Package retains the 40 per cent greenhouse gas emissions reduction target and the target of at least 27 per cent renewables. An increase of 30 per cent instead of the original 27 per cent has been proposed only for energy efficiency. In terms of certain concrete measures, the Winter Package, in its current form, can perhaps be assessed as being faintly more positive than had been feared, especially considering DG Competition’s massive interventions as well as quite a number of EU Member States adhering to the wishes of the fossil fuel and nuclear energy lobby. Nevertheless, and despite some positive elements, it presents significant setbacks for the energy transition.

1 Targets are: business-as-usual

Despite a 40 per cent greenhouse gas emission reduction being high by international standards, this level will certainly not suffice if the global community is serious in its aims to limit global warming to 2°C, or better 1.5°C. From an economic point of view, too, it would be advantageous to set more ambitious targets for renewables and efficiency. Experts agree that 27 per cent renewables by 2030 is barely more than ‘business-as-usual’. The increase from 20 per cent by 2020 up to 27 per cent by 2030 means that the annual growth of renewable energy will only amount to a third of its current rate. This would, despite the reduction in costs of renewables over the previous years, mean a considerable decline in deployment. In addition, an increase of the efficiency target from 27 per cent to 30 per cent results in an additional increase in the share of renewables with the same installation costs and expendi-

ture. Furthermore, according to the scenarios presented by the Commission, costs estimated for up to 2030, for example for wind power and photovoltaics, have either already been reached, or will be reached within the next few years.

It can be positively noted that the European Commission intends to formalise the disallowance of any MS falling behind the 2020 binding targets.

2 Support for renewable energy will be significantly limited

Given the balance of power in the European Council and the Commission, and due to discussions held over previous months in 2016, it can perhaps be viewed as a success that the proposed revised renewable energy directive contains an article addressing national support systems for renewables in the electricity sector at all. However, and contrary to the current legal position, available options are broadly restricted. In contrast to the existing legislation, support is specifically dependent on sufficient existent grid capacity. At the same time, existing regulations concerning priority grid connection obligation are abolished. In addition, support is completely subject to state aid law and as a rule will have to be granted as a result of auctions. Only small systems and demonstration projects are still eligible for fixed feed-in-tariffs and priority access and dispatch. Discretionary power of the Member States in terms of support design is also set to be significantly reduced: at least 10 per cent of bids in public calls for tenders will have to be open for external providers, and this will be increased to 15 per cent from 2025. Technology-specific calls for tenders will only be admissible, if extensive justification is provided. Feed-in-priority can only be granted up to 500 kW and, from 2025, only 250 kW, and only if priority for these systems does not exceed 15 per cent of the accordant Member States' generation capacity.

Even more aggravating is the fact that the DG Competition has received a blank cheque for future developments, whereby all regulations apply only if current and future versions of the environmental and energy aid guidelines do not specify otherwise.

The draft directive's proposal to essentially exclude retroactive changes of support schemes is a positive element, as is including the feed-in of biogas into the gas network.

3 The new market design will be more flexible – but only just

The draft Market Design Directive and the Regulation explicitly aim to make future markets ready for accommodating high shares of renewable energy, including variable renewables (VRE), as well as great amounts of distributed generation, including prosumers. To this end, markets shall become more flexible, and electricity and system service markets shall be subject to significantly shorter trading times.

Markets shall be more closely coupled and the use of cross-border capacities shall be reinforced. Cross-border reserves should, fundamentally, be treated as local reserves. Capacity markets should only be considered as a last resort and only if cross-border capacities have been exhausted. However, this approach, in principle a welcome one, is counteracted by the fact that national capacity markets in important Member States (UK, France and soon Poland) which do not fulfil these criteria have already been approved by the Commission.

It would be important to provide for a timely revision or re-approval of these mechanisms in order that they accord with the new regulations. Incentives to reduce the inflexible conven-

tional and nuclear overcapacity in Europe are also lacking – aside, that is, from the 550 g CO₂/kWh minimum efficiency requirement for coal-fired power stations that take part in the capacity markets. Clear regulations for the termination of fossil-nuclear subsidies are also sorely lacking.

A positive feature is the Commission's proposal that, unless there is a short-term threat to system stability, renewable energy (and highly efficient CHP) shall be the last to be curtailed, and that there shall be compensation payment in case of curtailment. A problem, or at least still unclear, is the equal treatment of renewables and CHP, not to mention the proposed calculation of compensation (90 per cent of foregone earnings).

Likewise, BEE regards the Commission's proposal for the guaranteed right to self-consumption of electricity generated by renewable energy as a step in the right direction, as well as the intention to simplify the realisation and support of citizens' energy projects.

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