



Eurogas response to European Commission Consultation on a draft General Block Exemption Regulation (the GBER) on state aid measures

12 February 2014

We are limiting our comments to aid for environmental protection and, within that chapter, to aid relating to the promotion of energy from renewable sources since it is in this area in particular where current national support schemes have a market distorting effect to the detriment of fair competition in the energy market, EU competitiveness and security of supply.

Much progress has been made on increasing the market share of renewable energy sources in line with the EU's target for 2020. This development has largely been brought about by extensive support schemes.

The implementation of the Renewable Energy Directive in several Member States, via support schemes and other special treatment, opened a window of opportunity for renewable energy sources. Unfortunately the approach taken in many Member States has resulted in market distortions which have left other forms of generations stranded. This raises doubts about compatibility with internal market principles and cost-efficiency. Moreover, the variability of certain renewable energy sources has caused concerns about security of supply.

In some Member States, the influx of electricity from variable renewable energy sources is particularly high, owing to both extensive support schemes and exemptions from grid obligations for scheduling, nomination and balancing. Eurogas therefore welcomes the fact that the draft proposal addresses these points.

The current situation contributes to Member States experiencing the challenge of securing both base-load and backup electricity generation capacity when variable renewable energy sources are not delivering, i.e. the sun is not shining or the wind is not blowing.

The reason is that running hours of thermal power stations are so reduced and the prices that can be achieved when they operate are so low that these power stations hardly cover their costs, or even run at a loss.

Gas-fired power stations are particularly hard hit, even though their flexibility is very much in need to back up electricity from variable renewables and they emit 50% less carbon dioxide on average than coal-fired power stations.

To ensure security of electricity supply, governments have either introduced or are considering capacity mechanisms which remunerate the availability of adequate power generation capacity.

Eurogas' view is that all mature renewable energy sources can be expected to compete on equal terms amongst themselves and with other greenhouse gas reducing options to avoid distortion of the market and of competition. Nevertheless, below we provide some specific comments on the Commission's proposals, with regard to the granting of aid to renewable energy.

Article 39a: Investment Aid for the promotion of energy from renewable sources

We welcome the overall approach of integrating renewables into the market, as this is fundamental to ensuring the proper implementation of the internal energy market. We have no preference for operating or investment aid, but in both cases the schemes should be designed in such a way that their impact (i.e. distortions) on the market is minimised.

There is further value in seeking coordination amongst schemes in order to avoid having very different schemes across the Member States. However, this need not be a one size fits all approach.

In all cases the design of the scheme chosen should ensure that renewable generators are subject to a signal for short term dispatch (i.e. an incentive is provided to generate or not, depending on market prices).

P. 4 Aid is granted on the basis of investment costs, but there does not appear to be any limitation of what these costs might be above market prices. We recommend that the costs are capped.

P. 5 We welcome the statement that the beneficiaries are subject to standard balancing responsibilities. However, we do not agree that this should be limited to circumstances where competitive intra-day markets exist, for two reasons:

- Firstly, not obliging all parties to participate in a balancing market reduces the likelihood of a competitive balancing market emerging. On the other-hand requiring all generators to balance their production will kick-start those markets that require greater liquidity.
- Secondly the risk faced by renewable generators of having no intra-day market is the same as the risk faced by other forms of generation.

The same point for Article 39b (7).

Article 39b: Operating Aid for the promotion of energy from renewable sources

P. 2 Eurogas supports the proposal that aid is granted in a genuinely competitive bidding process. This helps to ensure that the level of the support is minimised to no more than necessary. However, it needs to be ensured that a functioning auctioning model is in place.

P. 5 Eurogas supports the proposal that if aid is granted, it is done so via a feed-in premium. The design of such a feed-in premium should ensure renewables are incentivised to respond to price signals delivered by the market.