



Recent developments in State aid in the renewable energy sector and capacity mechanisms in the European Union

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*"Over **70%** of global energy investments will be government-driven and as such the message is clear – the world's energy destiny lies with decisions and policies made by governments."*

Dr Fatih Birol, Executive Director, IEA,
13 November 2018, World Energy Outlook 2018



State aid rules in the renewable energy sector and capacity mechanisms in the EU

- Public support for renewable energy (RES) installations and capacity mechanisms in the EU is governed by the Guidelines on State aid for environmental protection and energy 2014-2020 ("EEAG").
- Applicable since 1 July 2014 when they replaced the previous Guidelines on State aid for environmental protection published on 1 April 2008.
- EEAG are applicable until 31 December 2020.



State aid rules: allocation of aid for RES and generation adequacy

➤ **RES:**

- Open and competitive bidding process.

➤ **Capacity mechanisms:**

- Open to capacity providers of all technologies, cross border capacity, new and existing capacity;
- Competitive bidding process.

State aid rules: necessity of aid and market integration requirements

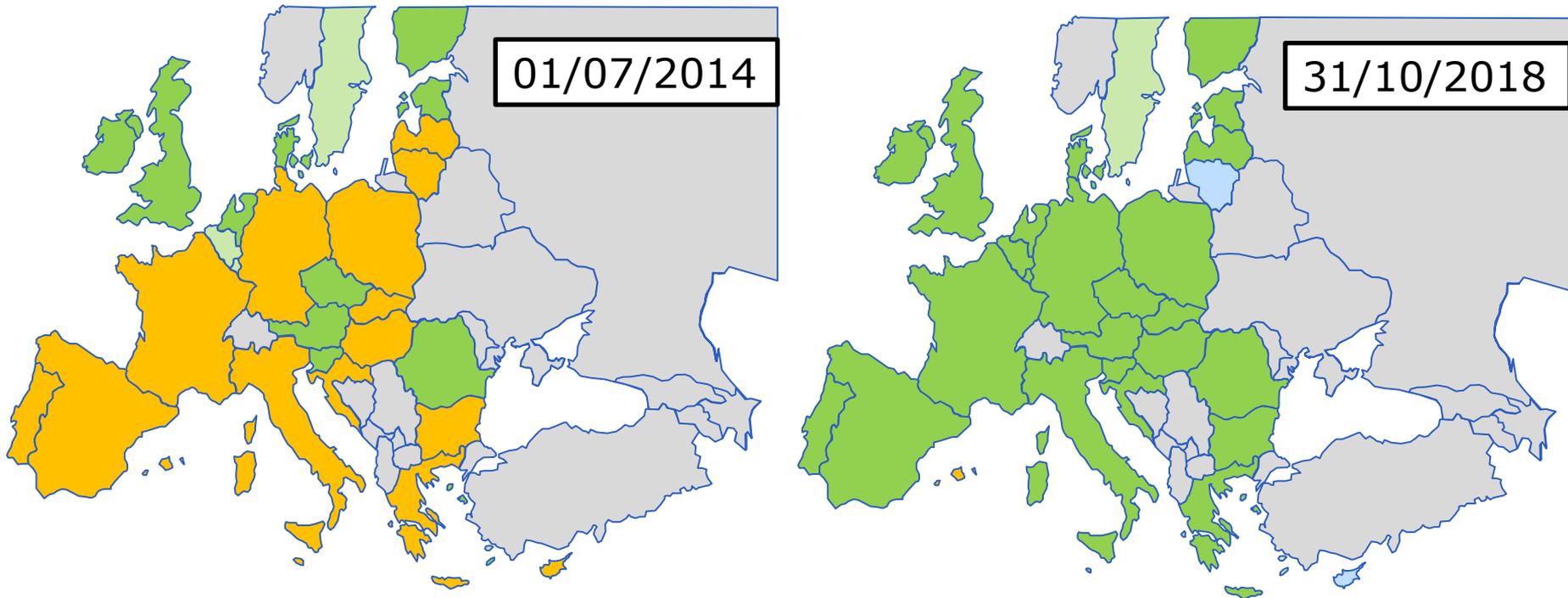
➤ **RES:**

- Balancing responsibilities
- No support when prices are negative
- Direct selling into the market (not to the transmission system operator)

➤ **Capacity mechanisms:**

- Market reforms first
- Estimate of consumers' willingness to pay
- Size adjusted to the need

Overview of State aid status of RES schemes



Approved schemes
(or found no aid)

Illegal
schemes

Past no aid
decision

No open
scheme

Examples of RES schemes approved in 2018

- France: landfill gas, tenders for innovative solar and self-consumption.
- Germany: high-efficient cogeneration.
- Denmark: multi-technology tenders and onshore wind.
- Poland: combined heat and power certificates.
- Belgium: offshore wind.
- Greece: RES.
- Luxembourg: biogas.

Capacity mechanisms – past cases

- Sector Inquiry – 2015/2016: 35 capacity mechanisms identified in 11 MS.
- Capacity mechanisms already approved:
 - United Kingdom – 2014:
 - Market-wide capacity mechanism
 - Germany – 2016:
 - Interruptibility scheme (AbLAV)
 - Network Reserve
 - France - 2016:
 - Market-wide capacity mechanism
 - Ireland / Northern Ireland – 2017:
 - Market-wide capacity mechanism

7 Capacity mechanisms approved in 2018

- 2 market wide capacity mechanisms: Italy and Poland
- 2 strategic reserves: Belgium and Germany
- 2 demand response schemes: France and Greece
- 1 flexibility mechanism: Greece

Market-wide capacity mechanisms

Key features

- Insufficient market incentives for maintaining or building new capacities
- Ongoing market reforms
- Reliability standard (willingness to pay)

> **Necessity**

- Open to all types of capacity providers including demand response and foreign capacities
- Rules to ensure level playing field

> **Appropriateness**

- Auction and market power mitigation measures

> **Proportionality**

> Protects competition and trade

Italian market-wide capacity mechanism:
for 10 years as of 2018

Polish market-wide capacity mechanism:
for 10 years as of 2018

Strategic reserves

Key features

- Demonstrated risk of emergency

> **Necessity**

- Must be "outside" the market
- Temporary character

> **Appropriateness**

- Regular tenders open to all domestic producers and demand response operators

> **Proportionality**

- > Protects competition and trade

Belgian strategic reserve
for next 5 winters, starting in 2017-2018

- Necessity: required to mitigate supply risk due to high reliance on ageing nuclear fleet

German capacity reserve
for 6 years, starting in October 2019

- Necessity: required to ensure security of supply during ongoing "Energiewende" and phase-out of nuclear production

Demand response schemes

Key features

- Incentivise consumers to reduce electricity consumption in hours when electricity is scarce
- Use of an under-exploited pool of capacities that are almost readily available
- Can avoid the construction of new plants
- Temporary character
- Regular tenders

> **Necessity**

> **Appropriateness**

> **Proportionality**

French demand response tenders:
for 6 years, starting in 2018

- Complements the market-wide capacity mechanism approved in 2016
- Necessity: support development of demand response which can bring economic and environmental benefits but faces learning costs

Greek interruptibility scheme
for 2 years, starting in 2018 (prolongation)

- Necessity: proven necessity in tight situations of December 2016 and January 2017

Flexibility mechanism

Key features

- Lack of flexible capacity

> **Necessity**

- Temporary character

> **Appropriateness**

- Tenders open to all domestic flexible capacity providers (gas, CHP, flexible hydro and from April 2019, demand response and storage)

> **Proportionality**

Greek flexibility mechanism
from August 2018 until December 2019

- **Necessity:** proven need of flexible capacity in the current design of the Greek market.



The new Renewable Energy Directive

- **14 June 2018:** the Commission, the European Parliament and the Council agreed on the new Renewable Energy Directive (RED II):
 - confirms RES as objective of common interest until 2030;
 - 32% is the overall EU target for RES consumption by 2030;
 - EU Member States must set their national contributions to the collective target (so there will still be national plans and targets);
 - explicitly accepts that the EU target can be exceeded and that support can still be granted in order to exceed that target (or the national contribution to it);
 - Member States may open participation in RES schemes to producers located in other Member States. By 2023, the Commission will carry out an evaluation of the need to introduce an obligation on Member States to open participation in their RES schemes to producers located in other Member States with a view to a 5 % opening by 2025 and a 10 % opening by 2030.
 - EU Member States must transpose RED II in their national legislation by 30 June 2021.



Thank you for your attention!