EU Clean Energy Package – Energy UK Comments

22 March 2017

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 90 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry from established FTSE 100 companies' right through to new, growing suppliers and generators, which now make up over half of our membership. Energy UK is listed in the EU Transparency Register under ID no. 13457582538-68.

Main Points

General

- Energy UK supports the broad approach of the Clean Energy Package, which should help further to align electricity markets and to create a more consistent framework for European energy policy
- Carbon emissions reduction should remain the central goal of the energy transition; the interactions between energy and climate policy should be carefully considered and adverse impacts on the EU Emissions Trading System (EU ETS) should be minimised.

Electricity Regulation

- The Regulation has many positive features, including the proposals on balancing and intra-day markets, renewable market integration and improvements in the Network Code process
- Energy UK's main concerns relate to:
    - Harmonisation of the imbalance settlement period at 15 minutes irrespective of the cost;
    - The bidding zone review process and the prospect of frequent zone changes;
    - The requirement that capacity mechanisms should only be allowed if justified by the ENTSO-E adequacy assessment;

- The imposition of an emissions performance standard for generation participating in capacity mechanisms (however, one Energy UK member does not share this view – see footnote on p. 6);
- The lack of a clear Network Code amendment process and the limited engagement of market participants (while recognising some improvements).

Electricity Directive

- Energy UK generally supports the provisions on retail markets and welcomes the phasing-out of price regulation and recognition of storage as a competitive business
- Our main concerns relate to:
  - The requirement for all suppliers to offer dynamic price contracts;
  - The proposal to exempt aggregators from normal market disciplines such as imbalance responsibility;
  - Challenges relating to the governance of the DSO entity and the prospect that Network Codes on distribution could stray into areas best handled at national level.

ACER Regulation

- The proposal generally proposes some sensible reforms to the role of ACER;
- ACER should not be overburdened with new tasks given the problem of resourcing;
- Energy UK does not support the proposal to move to majority voting in ACER.

Risk Preparedness Regulation

- Energy UK supports the proposals aimed at improving coordination in an emergency;
- Care should be taken to ensure full consistency with the Emergency & Restoration Network Code.

Energy Union Governance Regulation

- Energy UK welcomes the process for developing long-term plans established in the Regulation;
- Greater emphasis should be placed on the greenhouse gas reduction target and its interaction with the energy efficiency and renewable targets;
- The Regulation should not be used as a means to impose binding national targets in energy efficiency and renewables, but should aim to support Member States in delivering the EU commitments;
- We believe that interconnection should be built on the basis of economic need rather than in response to fixed targets.

Energy Efficiency Directive

- Energy UK recognises the need for a strong policy framework in energy efficiency and welcomes the flexibility given to Member States to meet their objectives;
- We nevertheless have concerns about the imposition of a binding EU target for energy efficiency and an energy-saving obligation;
- If an energy-saving obligation is maintained, it should not be open-ended;

Energy Performance in Buildings Directive

- We welcome the measures aimed at accelerating building renovation and promoting electro-mobility.

Renewables Directive

- While acknowledging the EU renewables target, Energy UK believes that binding targets should not be imposed at national level;
- We welcome the provisions aimed at integrating renewables in the energy market;
- Restrictions should not be placed on building new biomass capacity provided that the fuel meet sustainability criteria;
- Guarantees of origin (GOs) should not have to be centrally auctioned and any changes to GO arrangements should not retroactively affect existing producers.

1. General

The European Commission has recently issued a comprehensive Clean Energy Package, which aims to ensure that Europe meets its 2030 energy and climate goals and that electricity market design is updated in line with these objectives. Energy UK supports the broad approach of the Package and believes that it covers the major EU-level issues linked to the promotion of energy efficiency and renewables and further alignment of European electricity markets. We also support the Commission's plans to ensure that consumers can play an active part in the energy market.

The proposals on Energy Union governance, energy efficiency and renewables are based on the 2030 energy and climate framework agreed by Member States in 2014. Energy UK welcomes the development of ten-year national energy & climate plans, which Member States will have to produce. These plans should help to provide the predictable framework which is essential to bring forward market-based investment in electricity and gas infrastructure.

The cornerstone of the 2030 framework is the 40% greenhouse gas reduction target. This target, coupled with a strong carbon price, will provide a major incentive for investment in renewables and energy efficiency. It is particularly important that the renewables and energy efficiency targets work with the EU Emissions Trading System and do not undermine the carbon price. Therefore, while Energy UK supports cost-effective policies to promote renewables and energy efficiency, it believes that the Package governance arrangements should not aim to promote nationally binding targets, but should take a technology-neutral approach to decarbonisation.

Energy UK supports continued integration of the European electricity markets, which should promote a more competitive, economically efficient and innovative energy sector. This in turn should benefit customers by keeping energy costs down and enhancing security of supply.

Energy UK welcomes many of the detailed proposals in the Package, including measures to phase out price regulation (except for vulnerable or energy poor customers), the recognition of storage as a competitive business, improvements in the Network Code process and integration of renewable energy in the market.

Our main concerns about the Package relate to issues of cost and proportionality and are set out in the paper below. These include some potential restrictions on the use of capacity mechanisms, possible exemption of aggregators from imbalance costs, harmonisation of the imbalance settlement period at fifteen minutes, obligation to offer dynamic tariffs and the interaction between EU and national targets on energy efficiency and renewables.

Energy UK welcomes the UK Government's decision to take a full part in negotiations on the Package and commitment to implement the legislation agreed while the UK is still a Member State. This approach will facilitate continued collaboration between the EU and the UK on energy and climate issues in the period to 2030. Energy UK believes it important that Brexit should not result in barriers to trade in electricity and gas and recognises the case for continued regulatory convergence within the European market.

2. Electricity Regulation

Balancing Markets

The Commission's proposals to integrate further the intra-day and balancing markets are to be welcomed and should bring renewed impetus to cross-border competition in these timescales. However, Energy UK has strong concerns on one point: the requirement in Art. 7.4 that all Member States should move to a 15-minute imbalance settlement period (ISP) by the start of 2025. A recent cost-benefit analysis (CBA) in the context of the Balancing Guideline has indicated that the costs of such a measure for the UK would be wholly disproportionate to the benefits, in particular because of the need to modify smart meters. Currently Energy UK has no reason to believe that a longer lead time would result in a positive CBA.

In Energy UK's view, a harmonised ISP is not a pre-requisite for an integrated EU balancing market and should remain subject to a CBA, which could consider a longer lead time in its scenarios. We recognise that there are benefits in wholesale markets trading closer to real time as more intermittent renewable plant comes onto the system, but this should not necessarily involve large-scale changes to domestic smart metering at significant cost and disruption to the consumer.

Bidding Zones

Art. 13 sets out the arrangements for bidding zone reviews and potential amendments. Little detail is provided on the process and the decision on whether to amend bidding zones appears to reside purely with the Commission; Member States and national Regulators do not have a role, though ACER can opine on methodology.

Changes in bidding zones have major impacts on energy trading and can also be significant for national energy policy, as support for low-carbon energies is often referenced to the wholesale price. Changes to bidding zones should only be carried out following careful consideration and on an enduring basis. Decisions to build new generation, refurbish capacity or exit the market would be extremely risky in a market where the bidding zone can change in the short or medium term. Moreover, forward markets would suddenly be subject to a new and significant risk. These risks are likely to lead to additional costs which will ultimately be borne by consumers.

Splitting of national markets into separate zones can also be politically sensitive, given the potential price impacts. In this light and given the undesirability of frequent zone changes, Energy UK believes that ACER should have a clear advisory role and that, particularly for zone changes within a national market, Member States and national regulators should retain ultimate control.

Network Charging

We agree that ACER should examine charging methodologies as per Art. 16 to determine whether a progressive harmonisation would be beneficial to the internal market. It is debatable whether this should extend to distribution charges, given the considerably lower impact on cross-border trade, though non-binding Guidelines would be acceptable.

Congestion Rents

Art. 17.2 requires congestion rents to be used for ensuring capacity availability or for promoting investment in new interconnection. However, this does not appear appropriate for merchant interconnectors, which do not have regulated returns and rely on congestion income. Art. 21.8, which shares revenues from cross-border participation between TSOs, is also not appropriate for merchant interconnectors.

Capacity Mechanisms (CMs)

Energy UK welcomes the Commission's recognition of the value of well-designed CMs. Nevertheless, we have concerns about some specific provisions and notably the requirement in Art. 24.5 that CMs should only be implemented if justified by the annual ENTSO-E Europe-wide adequacy assessment. While the pan-European analysis will be one input to decision-making, the national assessment will contain greater detail on market and system conditions and should be the main determinant, particularly in weakly-interconnected markets such as the UK. ENTSO-E's primary role should be in defining cross-border methodologies and contributions. Furthermore, individual Member States should have the right to opt for a CM for energy security reasons, provided that it does not inhibit trade and complies with the State Aid Guidelines.

Energy UK agrees that capacity providers should be able to participate in CMs of other Member States and welcomes the process set out in Art. 21 for developing a methodology of cross-

border participation. The details will need careful consideration, in particular the possibility to participate in multiple schemes while ensuring a level playing field among potential generators, and the potential for concurrent scarcity events.

Art. 23 proposes that generation participating in a CM should have to meet an emissions performance standard (EPS). Energy UK does not support this proposal.[1] CMs are designed to ensure security of supply, should be technology-neutral and are not an appropriate mechanism for promoting decarbonisation – which is the role of the EU ETS. An EPS, apart from increasing costs, will have the effect of weakening the carbon price and will not reduce CO_2 emissions in the traded sector, since these are set by the EU ETS cap. Furthermore, once an EPS is established, there could well be pressure to reduce it further, thus threatening the role of other fossil plant which plays a key role in security of supply.

Network Codes

Energy UK welcomes a number of proposed improvements to the Network Code process, including more transparent governance of ENTSO-E. We strongly support the proposal in Art. 55.9 that market participants should be able to participate directly in the drafting of the Codes. Nevertheless, it is surprising that the qualification "a limited number of the main affected stakeholders" is added; this means that participants in the competitive market are the only ones whose involvement in the Code process is restricted. Given the importance of market knowledge in drafting and amending Network codes, we would propose that this qualification is removed, while recognising that representation must be proportionate.

A key addition in this area is the development of a clear and timely amendment process. Codes need to be kept up-to-date to reflect the rapidity of market and technical change and to deal with issues raised during implementation. Energy UK believes that the industry code processes used in the GB market provide a good model for dealing with amendments, but at the very least a clear process should be specified, placing all industry stakeholders on an equal footing, e.g. in proposing amendments, with set timescales and roles for all parties in the process.

Art. 55 also proposes new Network Codes covering distribution tariffs, curtailment, ancillary services, DSR and cybersecurity. While Energy UK can see benefits in sharing best practice, some of these topics may stray into areas best dealt with at Member State level and some appear to overlap with existing Codes, e.g. Electricity Balancing and CACM.

DSO Entity

Energy UK recognises that, with the rapid development of decentralised generation and of demand-side response, distribution network issues are becoming more significant for the European electricity market. It therefore seems sensible to establish a forum for the discussion of distribution-related issues. This will present challenges, given the fragmented and generally

[1] This is not a unanimous view. One Energy UK member supports the provisions of Art. 23.4 and believes it is consistent with the UK Government commitment to driving coal off the power system by 2025.

locally-focussed nature of the distribution activity in Europe. Clear governance arrangements and terms of reference will be needed for this entity to function effectively. For instance, there should be strict separation between distribution and supply businesses and all proposals should be subject to transparent stakeholder consultation.

Energy UK believes that two particular points are relevant in establishing the DSO entity:

- The lessons learned from the establishment of the ENTSOs should be learned; in particular care should be taken that the interests of energy suppliers are placed on an equal footing to those of the TSO or DSO; for instance, to achieve effective DSR arrangements, the involvement of all market participants will be essential;
- The work programme should be strictly limited to areas where there is a clear European added value; policy recommendations should not aim to be overly prescriptive (unless there is a discernible impact on cross-border trade).

Delegated Acts

Art. 56 proposes that Network Codes should in future be dealt with via the Delegated Acts process. Energy UK recognises the important role of the Commission in developing the Codes but would prefer a process with full engagement of Member States and national Regulators. The first set of Network Codes has in most cases benefited considerably from the discussion at the Comitology stage, which has been able to resolve some potentially difficult implementation issues, some of them specific to national systems.

Role of TSOs

Some tasks given to TSOs in the Regulation are currently undertaken by independent non-TSO third parties. For instance, in the UK information under Art. 5.10 is published by the imbalance settlement administrator rather than TSO. Energy UK believes that the Regulation should provide flexibility for Member States in this respect and not impose a change unless it would provide a benefit for consumers and is approved by the Regulator.

3. Electricity Directive

Retail Price Regulation

Energy UK very much supports the principle set out in Art. 5 that energy retail pricing should be market-based and that any such regulation should be confined to the protection of vulnerable and energy-poor consumers. The removal of price regulation is a key element in promoting a more competitive retail market in many EU Member States.

Dynamic Price Contracts

Energy UK believes that it would be costly and anti-competitive to put a requirement on all suppliers to offer "dynamic", i.e. spot-based, contracts to customers. It is unclear that there would be any significant demand from small customers for such a volatile product and what consumer protection would need to be in place. Energy UK proposes instead that there should be an obligation on suppliers to offer time-of-use tariffs and that Regulators should monitor the availability of such products in the market.

Switching & Termination Fees

Energy UK agrees that switching fees should not be levied and welcomes the distinction drawn in the Directive between switching and early termination fees. Nevertheless, we do not think that suppliers should have to calculate potential economic loss or prove a "demonstrable benefit" for consumers, as set out in Art. 12, as this can only be done with the benefit of hindsight. This would create an unnecessary obstacle to fixed-term contracts, which are popular with many customers and form an important part of the competitive energy market.

Aggregation

Energy UK supports the principle that electricity generation, storage and demand–side response (DSR) should compete on a level playing field. We agree also that independent aggregators should be able freely to contract with customers to provide DSR services without the consent of suppliers as per Art. 13 (though suppliers should be notified as part of the process). However, aggregators should not be exempted from normal energy market disciplines and they should be liable to any costs in respect of imbalance and/or diverted energy which they impose on suppliers. We would welcome greater clarity about the roles and responsibilities of aggregators and a clearer delineation with respect to other market parties.

We thus propose that Art. 17.3(d) should be deleted and that Art. 17.4 should contain a reference to commercial terms being freely negotiable among market participants. As DSR is in its infancy, it is important that future market design provides for flexibility, and that unnecessary subsidies do not become embedded in the system – as was the case with early renewable development in some Member States.

Billing

Energy UK can generally support the provisions on billing in Art. 18, though Art. 18.3 relating to customers with smart metering is unclear. There is some evidence that customers generally prefer simpler bills and in this light there is a case for including some information in annual statements rather than with each bill. Consideration should therefore be given to providing more flexibility in Annex II, in particular regarding the consumer comparison requirement in point 1 para 3.

Electricity Storage

Energy UK very much welcomes the wording of Art. 36 and Art. 54, which make clear that electricity storage is a competitive activity and that DSOs should only own or operate storage under exceptional circumstances and after regulatory approval Competitive markets will deliver the best outcome for consumers by keeping down network costs.

4. ACER Regulation

The Regulation contains a number of sensible reforms to the original legislation, some reflecting roles which ACER has taken on in the intervening years, others aiming to streamline the current process. Energy UK supports, for instance, the proposal that ACER should decide issues where approval by all 28 NRAs would be required. We also endorse the principle of a regional decision-making process.

Lack of funding has hampered ACER during its initial years. As this problem may not be easily resolved, it seems prudent not to overburden ACER with functions if these could be fulfilled elsewhere. For example, some tasks linked to generation adequacy and risk preparedness could arguably be handled by governments.

Energy UK does not support the proposal in Art. 19.5 that the Agency should move to simple majority voting. ACER's role is *coordination* of energy regulation and we believe that it should operate by consensus as far as possible, rather than potentially impinging on the role of national regulators.

5. Risk Preparedness Regulation

As the EU electricity system becomes more integrated, it is sensible to strengthen coordination on security of supply issues and in particular to clarify processes in the event of an emergency. Energy UK thus broadly welcomes the draft Regulation.

The proposal draws on experience with gas security of supply events, e.g. the Russia/Ukraine crises, which is logical, but some provisions may not be entirely appropriate for electricity, which cannot be stored in bulk. Detailed rules on emergency arrangements have recently been agreed in the Emergency & Restoration Network Code and we would welcome a review to ensure the two texts are fully consistent and do not overlap, as well as appropriate cross-references to the Code.

Both TSOs/DSOs and power generators have an essential role to play in maintaining secure electricity supplies and seamless cooperation between them is necessary. In this light, Energy UK believes that there should be a specific requirement on TSOs to consult directly with generators in Art. 5.4 and Art. 8.2 (not simply "the industry").

Art. 16.2e focusses primarily on the consumer impact of an electricity crisis. The economic impact on generators also needs to be fully assessed, in particular as generators may incur major costs, including possible damage from being required to run outside normal plant parameters.

The Regulation should focus on system events with cross-border impact. In this light it seems logical to define “electricity crisis” as affecting more than one Member State.

6. Energy Union Governance Regulation

Energy UK supports the main proposals in the Regulation, which aims to improve coordination among Member States in meeting the 2030 targets and to streamline reporting. We particularly welcome the requirement for Member States to submit long-term plans for meeting EU and national energy objectives – these plans should help to provide the policy clarity and stability which the sector needs to undertake low-carbon investment. We also agree that the plans should be produced to a standard format.

Energy UK believes that a technology-neutral approach is the best means of delivering cost-effective decarbonisation. In this light, our major concern is that the Regulation could be used as a means to make the European targets on energy efficiency and renewables effectively binding at national level. The Regulation in general does not place sufficient emphasis on the GHG emissions trajectory and the interaction between the various instruments (EU, ETS, effort-sharing, renewables and energy efficiency).

Art. 4 requires Member States to set out “trajectories” for renewable development, not only by sector but also by individual technology. Energy UK recognises that this has benefits in providing greater investment certainty but stresses the importance of Member State flexibility and of avoiding commitments which have to be met irrespective of the cost.

Art. 14 requires that national emission strategies should have a 50-year perspective. While a rolling target is sensible given that most existing long-term objectives run to 2050, it may be wiser to have a rolling 30-year rather than 50-year timescale.

Art. 27 proposes measures to be taken if the EU collectively is not on track to meet the 2030 renewable and energy efficiency objectives. The provisions need to be clarified, but it does not seem logical to require a Member State which is unable to meet its renewable objective (probably on cost grounds) to make a contribution to funding renewables in other Member States. The timing of Art. 27.4/5 also needs to be reviewed, as it is unreasonable to expect Member States to close a gap within one year of it being identified – and five years before the target applies. When considering the performance of Member States against the renewable contributions, it is important to consider the bigger picture of national progress on CO_2 reduction.

Energy UK believes that interconnection should be built on the basis of a sound economic case evidenced by market appetite rather than arbitrary targets. It must be stressed that interconnectors are not a panacea and that the European power system requires not only a strong grid but also adequate local and regional generation capacity. Interconnection on its own does not guarantee that there will be sufficient capacity to meet demand and other options such as more generation, storage or DSR may prove more cost-effective. Moreover, undersea DC interconnectors such as those required for island markets such as GB are significantly more costly than conventional AC interconnection, so a one-size-fits-all EU approach is not appropriate. For these reasons, Energy UK believes that the 15% interconnection target should be regarded as an aspiration rather than a fixed objective.

National plans will need to be regularly reviewed to take account of energy market changes, geopolitical developments and progress with energy infrastructure. In Energy UK's view, Member States should be able to undertake "course correction" where necessary, while bearing in mind the importance of predictability for investors. Energy UK would therefore like to see greater flexibility and realism in the updating process; for instance, Member States should not be forced always to increase ambition as proposed in Art. 13.3, since there may be occasions when Member States have to address delays in meeting their targets.

It would be helpful to add to the Regulation some metrics for monitoring the progression of electrification across Europe. These could include % domestic properties with charging infrastructure, average/largest distance between fast chargers on main highways and number of electric vehicles registered.

7. Energy Efficiency Directive

Targets

Energy UK recognises the crucial importance of energy efficiency both to meet climate change targets and to reduce energy bills. However, we do not support the proposal to make energy efficiency targets binding at European level and have concerns about the target increase advocated by the Commission. The risk is that this approach will weaken the carbon price and result in more expensive abatement options taking precedence over more cost-effective ones. A further concern is that the wording in Art. 3 has changed to require Member States to meet both the primary and final energy demand reduction targets (previously only one target had to be met).

The Commission has raised the level of the target agreed by the European Council from 27% to 30%. While this is a political issue for Member States and the European Parliament to decide, some of the assumptions in the impact assessment appear to be optimistic, notably in respect of fuel prices, rates of return on investment and building renovation rates. Moreover the impact on the EU ETS is a matter of concern: the Commission's own impact assessment projects that a 27% to 30% target increase would weaken the carbon price by some 30% by 2030. We would therefore like to see further analysis of the impacts, including at Member State level. A target

based on reducing energy consumption could well act as a constraint on Europe's future economic growth and reduce the appetite to develop low-carbon technologies and it is important that these outcomes are avoided.

Energy Savings Obligation

Art. 7 sets out an open-ended target, requiring Member States to deliver 1.5% final energy savings for ten-year periods beyond 2030. As most of the "low-hanging fruit" has already been addressed in some Member States, maintaining the same target indefinitely is likely to result in high delivery costs and will weaken the opportunities for competitive markets to develop. Energy UK believes that it would be preferable to use market-based measures and incentives to drive energy efficiency investment and therefore does not favour the continuation of a binding energy savings obligation

If an obligation is maintained in Art. 7, it should not be prolonged beyond 2030. The Directive will be reviewed in 2024 and it would be more appropriate to decide this issue at that time.

Energy UK is supportive of the flexibility provided in Art. 7, which allows Member States to implement a supplier obligation or alternative measures. While supplier obligations have brought some benefits, UK experience shows that they can also have unintended consequences and have held back the development of a market for energy efficiency measures.

Including transport fuel suppliers as obligated parties under Article 7a would enable progress on energy efficiency in transport – and a better balance of energy savings across sectors. We regret that the text retains the same approach as the existing Directive and only keeps their inclusion as a possibility.

Although wary of the creation of sub-targets for specific customer groups due to the increased cost, scale and complexity, Energy UK welcomes the Commission's focus on energy-poor consumers. The UK Government has confirmed that an energy efficiency obligation, increasingly focussed on the energy poor, will persist until 2022.

Art. 7.2e effectively allows own use of renewable energy to count towards energy efficiency targets. This provides additional flexibility for Member States but also brings a risk of double counting and over-incentivisation of small-scale installations (which are generally less cost-effective than large-scale installations). In our view, renewable promotion is more effectively dealt with in the Renewables Directive and policy overlap should be avoided.

Primary Energy Factor

Energy UK supports the use of a primary energy factor (PEF) which provides Member States with the flexibility to reflect their own fuel mix. The proposal to reduce the default figure for electricity to 2.0 is a step in the right direction, given the progress made in developing non-fossil power generation. Energy UK would support a further move towards making the PEF for

renewables and nuclear energy respectively 0 and 1. The PEF should be regularly reviewed to reflect the changing energy mix and the process should be made clear by the Commission.

8. Energy Performance in Buildings Directive

Energy UK generally supports the Commission's proposals to the extent that they seek to accelerate the cost-effective renovation of existing buildings, encourage the use of smart technologies and integrate long-term building renovation strategies.

We welcome the Article on technical building systems, which could help to boost the take-up of cost-effective measures such as building automation and energy monitoring systems. A smartness indicator for buildings could also be helpful, provided that it has an impact on behaviour and does not become a burden on occupiers.

Energy UK believes that electric transportation could play a major role in decarbonising the transport sector and supports measures to develop infrastructure, e.g. via the provision of charging points in new and renovated buildings. Likewise a requirement to include an electric vehicle charging metric in Energy Performance Certificates would be welcome.

9. Renewables Directive

Targets

Energy UK acknowledges the EU target of at least 27% renewable market share set out in Art. 3 and agrees that Member States should continue to promote renewable development. This will require clear and stable policy frameworks for renewables which promote investor confidence and allow the EU objectives to be met cost-effectively. We nevertheless emphasise that flexibility for Member States will become increasingly important as renewables increase their market share and support the 2014 Council decision that renewable targets should not be made binding at national level.

The trajectories set out in national plans should be helpful in providing visibility for renewable developers and in allowing public scrutiny of Member State policies. Energy UK believes that if a shortfall occurs, the Commission should look at the tools it has available to promote strategic projects, e.g. in North Sea offshore wind, via European funding mechanisms.

Market Integration

A key element in achieving an integrated European market is to ensure that renewables are promoted in a way compatible with electricity wholesale markets. Energy UK therefore welcomes the proposals aimed at widening balance responsibility and phasing out priority access. It is essential that balancing and ancillary service markets are reviewed to ensure that all technologies can compete on a level playing field.

Renewable Support Schemes

Energy UK agrees that the development and deployment of renewables must continue into the 2020s and this will still require a dedicated support framework, particularly for immature technologies that need assistance to achieve commercialisation. This type of support is likely to be technology specific, with deployment concentrated at the most suitable sites. For these reasons, specific support or targets for certain technologies should remain a decision taken at national level subject to compliance with State Aid Guidelines.

The Directive proposes in Art. 5 that national support schemes should be opened up to capacity in other Member States, starting at 10% in 2021 and rising to 15% from 2026. Regional auctions could help to promote cost-effectiveness, particularly for Member States with limited renewable resource, increasing liquidity and reducing transaction costs. A regional approach would also facilitate the development of transnational projects, notably in offshore wind. It also seems sensible to review progress around 2025. However, it will be important to ensure that cross-border projects compete on a level playing field, e.g. in terms of network costs, investment climate and regulation. A range of practical issues would have to be solved, e.g. would a physical flow of electricity be required and would the generation count towards carbon budgets?

Permitting Processes

We welcome the positive intentions behind the time limits suggested for new renewables and repowering projects in Art. 16/17. We agree that for new projects a three-year limit would be desirable, though a longer period, perhaps up to five years may be needed for more complex projects.

In the case of repowering, we welcome the one-year limit. The lighter provisions of Art.17 are only applied where “no significant environmental or social impact is expected -, which somewhat weakens the provision. A transparent list of criteria for such impacts should be provided and the assessment of whether a scheme can go fast-track should also be time-limited.

Given the varying national planning systems, the “single administrative contact point” should be an optional measure. In the UK, a single contact point may not necessarily result in increased efficiency if all steps of the planning process need to go through this point.

Heating, Cooling & Transport

Energy UK recognises that new initiatives will be needed to expand the use of renewables in these sectors. We nevertheless have some concerns about the potential imposition of obligations on (undefined) “fuel suppliers”. The 1%/y increase target is uniform across all Member States and does not take into account existing fuel mix, potential or cost effectiveness, though we recognise that it is not an absolute target - “Member States shall endeavour …”

Biomass

Energy UK fully supports the commitment to ensuring a robust and transparent sustainability regime in respect of the use of biomass. The biomass sustainability criteria set out in the Directive are based on a regional risk-based approach and Energy UK believes that they are generally proportionate. Further discussion is needed on the detail, e.g. requirements in countries where forest harvest permits do not exist (Art. 26.5).

Art. 26.10 is questionable as it allows Member States to set stricter criteria, which appears to undermine the concept of establishing a European market for sustainable biomass.

The proposal indicates that only CHP and small-scale (<20 MW) biomass installations should be supported and count towards renewable targets (unless other options are exhausted). If the biomass used meets sustainability criteria, it is unclear why larger units should be excluded from targets or support. CHP installations are only suitable where there is a significant local heat load, and a threshold such as 20 MW could result in sub-optimal sizing of plant. Energy UK therefore believes that these restrictions on new biomass plant should be removed.

Guarantees of origin (GOs)

Energy UK generally welcomes the provisions on GOs, but does not support the proposed central auctioning of GOs related to producers receiving financial support. This proposal would retroactively impact existing producers, who have made investments expecting to receive GOs, and this conflicts with the stability provisions in Art. 6. By issuing some GOs to producers and auctioning others, this would create two parallel systems and the market for GOs would not be transparent. This is likely to cut across the arrangements for fuel mix disclosure in the UK, where GOs are used to evidence renewable generation, and to result in increased costs.

The proposed system would crowd out RES that is 'out of support' and there would be a need to install more supported RES in order to meet the European targets. The revenues from selling GOs would deteriorate as prices will drop to almost zero bringing in limited auction revenue for Authorities. In addition the administrative cost would be significant.

Energy UK does not support the proposal (Art. 19.8) that transmission losses should be taken into account when GOs are used to demonstrate consumption of electricity. This would be complex and the benefits are very unclear.

Energy UK
Charles House
5-11 Regent Street
London SW1Y 4LR
Tel: 020 79309390
www.energy-uk.org.uk