



World Wind Energy Association

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WWEA Position Paper Functioning of the EU electricity directive

The objectives of electricity market liberalisation

The objectives of the European Union energy policy are security of energy supply, a functioning and competitive electricity market leading to affordable energy prices for private consumers as well as for the industry and an energy supply which does not harm the environment and the climate. To achieve these objectives, the EU has put into force several regulations like the directive 2003/54/EC. In principle, the EU aims at a complete opening of the electricity markets in the year 2007.

However, it has to be stated that the preconditions for the functioning of a completely liberalised market have not been fulfilled yet, especially when taking into account the fulfilment of the above mentioned objectives.

The role of renewable energy in achieving the EU objectives

Renewable energy and especially wind energy will have to play a major role in order to achieve the EU objectives as they are offering

1. a domestic and therefore secure energy supply
2. an energy supply at low and even decreasing prices
3. an energy supply which is in principle emission-free and without major negative impacts on the environment and the climate.

The role of renewable energy therefore has to be given special consideration also and especially under the conditions of liberalising the electricity markets. Due to many existing market distortions and subsidies favouring the conventional energy sector, electricity from renewable energy yet can only compete in most cases as far as there are sufficient compensation schemes.

The European Union has recognised this and the special role of renewable energy by setting up an additional framework for renewable energy obliging the member states to set up favourable frameworks for the major deployment of renewable energy (Directive 77/2001/EC). The implementation of the respective directive will only be examined at a later stage, however, it seems clear that most of the member states will not achieve their targets and thus fail in coming closer to the above mentioned objectives of energy supply security, economic energy and environment protection. The electricity market for renewable energy generators is developing well only in few countries. The European Commission has stated in a report to the European Council of 26 May 2004 that it expects that only 18-19 % instead of the directive's target of 22 % renewable electricity share will be achieved by the year 2010. According to the report, only Denmark, Finland, Germany and Spain will most likely meet their targets. The other 21 member states have to intensify their efforts.

One reason for the expected failure certainly lies in the general structures of the overall electricity markets which do not offer fair market conditions for renewable energy – the most important barriers will be described below.

It also has to be stated that the EU still has a leading position in most of the renewable energy technologies. Furthering this leadership will not only create new export opportunities – in accordance with the Lisbon strategy – but also motivate further countries and world regions to invest in clean and secure renewable energy. Thus, an extended renewable energy utilisation in the EU will – indirectly, e.g through enhanced technology transfer – lead to poverty reduction and the fulfilment of the Millennium Development Goals as well as to a better protection of the global environment and climate.

Barriers on the way to achieve the EU objectives

Level-playing field

As stated above, the objectives of the EU energy policy and the renewable energy targets can only be achieved when there is a functioning and fair electricity market, including a level-playing field for all kinds of technologies, without favouring big power plants that are based on nuclear or fossil fuels. The directive 2003/54/EC states explicitly the importance “to ensure a level playing field in generation“.

This level playing field, however, is far away from current reality. According to the European Environment Agency, the subsidies for the conventional power sector sum up to 24 billion € per year – excluding external costs (EEA briefing 2/2004). The EEA already had stated clearly in the report “Energy and Environment in the European Union” (2001): “With fossil fuels supplying more than half the EU's electricity, price levels would need to be increased to include the estimated external costs of electricity production. Subsidies continue to distort the energy market in favour of fossil fuels despite the pressures these fuels place on the environment.” This situation has not been changed in principle.

Further improvements will be necessary to ensure the internalisation of external costs which currently have to be born by the consumers and taxpayers respectively the general public. The emission trading scheme which has been introduced recently in the EU – implementing the Kyoto agreements – does not lead to a sufficient internalisation due to the fact the emission rights have been given to some major electricity producers for free, based on the “grandfathering” principle. Besides, the emission trading schemes only cover part of the externalities and is not appropriate to ensure e.g a higher degree of energy supply security or further environmental or social impacts of the different energy sources. The Euratom treaty even gives special privileges to nuclear power which is not in accordance with the above mentioned objectives of EU energy policy. Nuclear power generators do not have to cover

the full liability in case of a nuclear accident and are even misusing nuclear waste disposal reserves for strengthening their market positions.

The role of new and independent power producers

It is one aim of the electricity directive to enhance the market competition by enabling new and independent power producers to enter the market arena. Many new, in many member countries typically small and medium sized enterprises especially are active in the field of renewable energy electricity. In the leading wind energy countries, small and medium sized companies have been and will be the driving forces in the electricity market. This special role of SMEs in combination with the special role of renewable energy has to be regarded also in the frame of the further liberalisation of the overall electricity market.

Therefore the fact that new and independent power producers still face major difficulties in the liberalised markets mainly affects producers of renewable energy electricity.

Access to the grid and unbundling

Access to grid as indicated in the above mentioned report to the European Council of 26 May 2004 and again in the report COM (2004)863 has to be improved substantially in many member states in order to enable market participation of new actors.

One reason is that there is no clear unbundling and a lack of regulation in several of the member states. Recent price developments at the electricity spot markets indicate that control and regulation of electricity transportation cost lead to lower grid utilisation prices and increased electricity generation prices. This underlines the impression that there has been a misuse of non-unbundled structures to prevent new generators from entering the markets.

In some member states, grid operators obstruct and delay the reinforcement and restructuring of the grids, which mainly affects new installations of new and independent power producers like wind farms. Transmission network operators – with their still existing natural monopolies – have also to be obliged to exchange data like on wind prediction in order to ensure a smooth grid management and thus to avoid unforeseen impacts on trans-national electricity transmission. With better data exchange and management in place, trans-national grid regulation can become much better optimised.

Again it has to be stated therefore that new and independent power producers still are the ones that face major difficulties in the liberalised markets – which again mainly affects producers of renewable energy electricity. Better regulation and control of the electricity markets and the grid operators through public regulators has to be given high priority.

Investment security

The European Commission sees investment in infrastructure and the operation of the grids as key issue for a competitive electricity market. At the same time, investment in infrastructure requires according to the report COM (2004)863 sufficient investment security. The same applies to investment in renewable energy, mainly wind power, where a high degree of investment security is required (there is hardly a possibility to improve the economic performance of a wind turbine after an investment has been made, due to the high share of initially fixed cost).

Therefore it has to be stated that a liberalised market can only benefit from the advantages of renewable energy investors when sufficient investment security is provided.

Market for “green” electricity

Differentiation of electricity by marketing of “green” electricity is in contradiction with the polluter-pays-principle and will not lead to a successful development as the examples of several member states have demonstrated. A demand-driven market for “green” electricity will only work when additional incentives will be offered to consumers; however, greater demand for “green” electricity does not automatically lead to an increase in renewable energy installations as the example of the Netherlands has shown.

Conclusion

A liberalised market can only achieve the objectives of the EU when several major changes have been made, including a level-playing field. This can only be achieved when the generators of different energy sources will be charged with the true cost of the respective source. Security of energy supply has to be given higher priority in this regard, too.

It is obvious that further action is required – next to the implementation of the renewable energy directive 77/2001/EC – to secure the contributions of renewable energy for the achievement of the EU energy policy objectives. This affects next to the internalisation of external cost mainly the access to energy markets and grids and the role of new and independent power producers. In parallel and in the meantime, incentives for renewable energies (as far as implementing directive 77/2001/EC) have to be maintained as demanded by the European Commission in the report COM (2004)863; such instruments have even to be extended, based on the criteria of efficiency and effectiveness.