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ANALYSIS

## Flexible mechanisms for cheaper renewables goals

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As the deadline approaches for member states to submit action plans detailing how they intend to meet renewable energy targets, the renewables directive's flexible mechanisms are drawing increasing attention. Jaap Jansen\* has a close look.

A recent report by the Netherlands' Energy Research Centre (ECN) on the four flexible mechanisms defined by the EU's 2008 renewables directive estimates that using them would enable the Dutch government to achieve by 2020 the Dutch mandatory renewables target of 14% more cost-effectively than without them.

In principle, use of the flexible mechanisms could reduce the net social costs of reaching national renewables targets mandated by the directive for all member states.

### **RPS: a winner for some**

The ECN report singles out a hybrid renewable portfolio standard (RPS) as the most promising route to benefit from the flexible mechanisms. An RPS – in EU-speak also known as a quota-obligation system – mandates certain actors, usually electricity suppliers, to ensure that electricity supplied to customers contains a minimum share or amount of electricity from qualified renewable energy sources.

A hybrid RPS combines a pure RPS with additional member-state-specific support measures, which are often technology-specific, such as for example feed-in premiums. Hybrid RPS schemes were identified in 2005 by a task force of the European think-tank CEPS as middle-of-the-road alternative to feed-in-tariff or feed-in premium schemes on the one hand and technology-neutral pure RPS schemes on the other.

Key advantages of hybrid RPS schemes over alternative models are that a hybrid RPS marries a market-based approach to capture any gains from renewable electricity trading with subsidiarity concerns. These concerns relate to making support technology-specific and may also address national industrial policies.

A well-designed hybrid RPS can largely avoid the windfall profits that could result from a pure RPS scheme. Hence, a hybrid RPS system would seem to be a prime candidate for EU-wide harmonisation of renewables support schemes.

However, despite its obvious advantages, the European Commission has not so far included hybrid PRS schemes in its impact assessment of renewables support schemes. The commission only evaluated a pure technology-neutral RPS model in comparison with feed-in tariff support systems.

### **Dutch courage needed**

Having completed its study, ECN advises the Dutch government to consider in earnest the implementation of a hybrid RPS in combination with the existing Dutch feed-in premium system as soon as this can be prudently realised.

Allowing for the time needed to draft and introduce new legislation, this is likely to happen in 2014-15. Feed-in premiums with an *ex-post* adjustment mechanism that allows for certificate price developments are to squeeze windfall profits.

ECN thinks the Dutch government should also explore the possibility of entering into a joint support scheme based on a hybrid RPS system with other willing EU countries. This concerns especially the Swedish government, which has publicly stated its willingness to transform the existing Swedish RPS into an international support system on the basis of the **joint support schemes** specified in the renewables directive.

A joint support scheme by Sweden and Norway is being prepared and should be operational by 2012. The ECN report estimates welfare benefits for the Netherlands and Sweden (plus Norway) running into several hundred million euros annually on each side.

This is conditional on certain market conditions, including that the supply curve for renewable electricity within the area covered by the joint support scheme bubble is on a gentle upward slope.

The idea of introducing a hybrid RPS is broadly supported by the Dutch electricity sector. One of the two Dutch associations of electricity suppliers, VME, has already commissioned a study to quantify the net benefits of a hybrid RPS support scheme.

### **The best of the rest**

The ECN study also assessed the potential for cost-effective use of the other flexible mechanisms in the directive. In theory, **statistical transfers** could lead to substantial cost savings in reaching renewable energy targets.

ECN has its doubts about the potential of this flexible instrument in practice, but advises the Dutch government to explore this through a tender process to procure target accounting units by forward contracts with other member states willing to sell them.

There is some potential for the **joint projects between member states** flexible mechanism, which also deserves further consideration. On the contrary, ECN holds low expectations of cost-effective use by the Dutch government of **joint projects between member states and third countries**.

A Dutch working group has made a wide-ranging inventory of options to reduce the public budget deficit by €35bn over the coming years. Within the area of energy and climate policy, both the renewables directive's flexible mechanisms and introduction of a hybrid renewables support scheme were identified as retrenchment options.

Yet the working group discourages implementation of a hybrid RPS before 2020 because of concerns over possible windfall profits. Any political developments on these matters in the Netherlands will have to await the formation of a new government coalition. Dutch general elections are due on 9 June.

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Follow-up:



[ECN report](http://www.ecn.nl/publications/default.aspx?nr=ECN-E--10-020)(<http://www.ecn.nl/publications/default.aspx?nr=ECN-E--10-020>) , [CEPS 2005 report](http://www.ceps.be/book/market-stimulation-renewable-electricity-eu-what-degree-harmonisation-support-mechanisms-require)(<http://www.ceps.be/book/market-stimulation-renewable-electricity-eu-what-degree-harmonisation-support-mechanisms-require>) and [EC communication](http://ec.europa.eu/energy/renewables/doc/sec_2008_57__electricity_report.pdf) ([http://ec.europa.eu/energy/renewables/doc/sec\\_2008\\_57\\_\\_electricity\\_report.pdf](http://ec.europa.eu/energy/renewables/doc/sec_2008_57__electricity_report.pdf)) on renewables support schemes. See also [Dutch government's deficit-cutting report](http://www.minfin.nl/dsresource?type=pdf&objectid=minfinbeheer:74762&versionid=&subobjectname=) (<http://www.minfin.nl/dsresource?type=pdf&objectid=minfinbeheer:74762&versionid=&subobjectname=>) (in Dutch).

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