Support schemes for RES-e versus EU State Aid rules*

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(*) All views expressed are personal and do not bind the EU Delegation

State Aid & support schemes
3 questions for today

1. When is a support scheme also State Aid?

2. Sensitive State Aid issues faced by EU support schemes

3. Implications for the Ukrainian 'green tariff' scheme

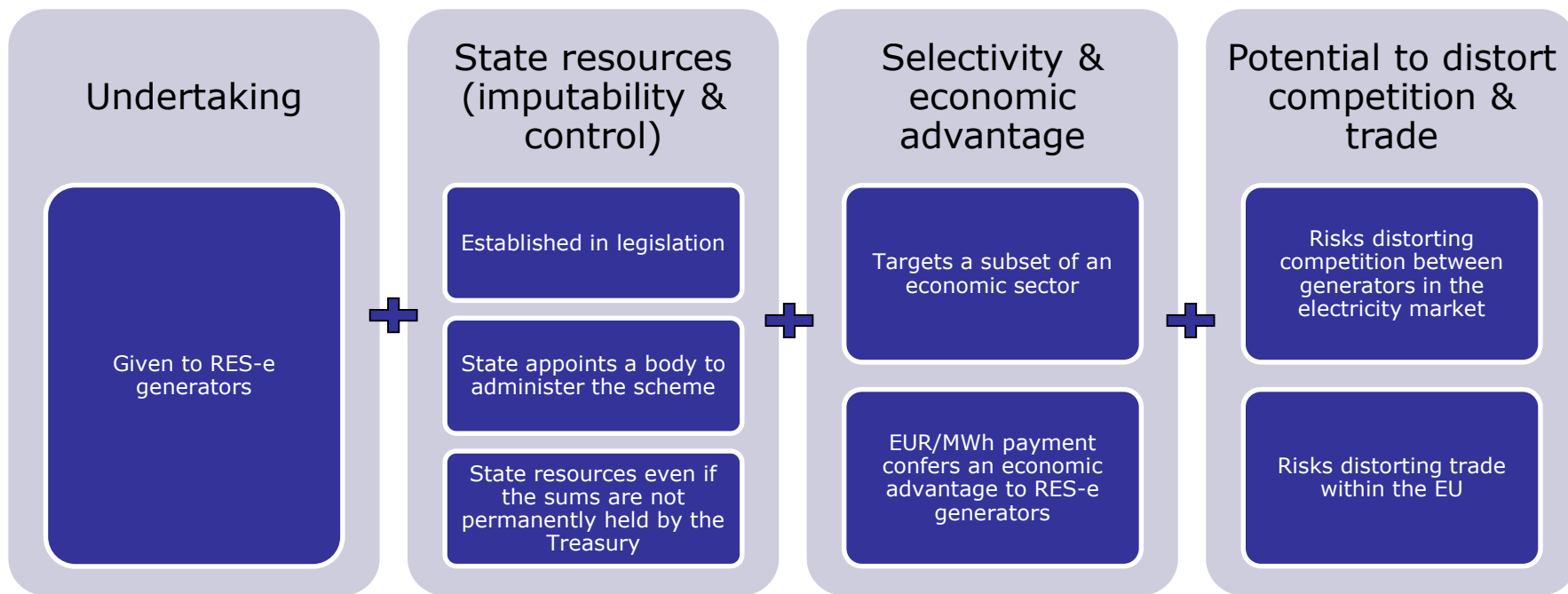# State Aid & support schemes Before we start...

EU (financial) Support Schemes:

- What? Most commonly, the result is a payment to RES-generators during years for each MWh produced

- Why? Market price may be insufficient to meet RES-e fuel mix targets due to their higher costs

State Aid & support schemes: Q1

Most EU RES-e support schemes are State Aid

Undertaking	State resources (imputability & control)	Selectivity & economic advantage	Potential to distort competition & trade
Given to RES-e generators	Established in legislation	Targets a subset of an economic sector	Risks distorting competition between generators in the electricity market
	State appoints a body to administer the scheme	EUR/MWh payment confers an economic advantage to RES-e generators	Risks distorting trade within the EU
	State resources even if the sums are not permanently held by the Treasury		

State Aid & support schemes: Q2

Ensure PROPORTIONALITY

EEAG	Example: France 2016 onshore wind support scheme
Aid in the form of a PREMIUM on top of the market price	YES
Sell directly to the market or through an aggregator	YES
Balancing responsibilities (if liquid intraday market)	YES
Aid granted through competitive bidding. Exceptionally calculated as: Aid<LCOE-Market price	NO COMPETITIVE BIDDING but: 1/Aid to allow IRR=7.2% (costs=44 EUR/MWh; market price=35 EUR/MWh, Payment during 15 years) 2/ Scheme valid only 1 year 3/ clawback mechanism if high market prices

State Aid & support schemes: Q3

Alignment of *existing* schemes to start in August 2018

Main SA issues in the 'green tariff' scheme:

- *If aid not granted competitively:*
  1. Calculate CAPEX and OPEX for standard RES-e plants
  2. Estimate revenue streams (notably projected electricity market price)
  3. Establish reasonable rate of return
  4. On the basis of 1-3: establish aid level and duration of the payout
  5. Establish a clawback mechanism in case of higher market prices

- *Must be a premium, not a feed-in tariff*

- *Production must be sold to the market not to a GB*

- Duration of the scheme should be limited to 10y.

BACK UP SLIDES

State Aid: The basics (I) State Aid control

Why?

- Prevent undue state intervention
- Ensure a level playing field in the internal market
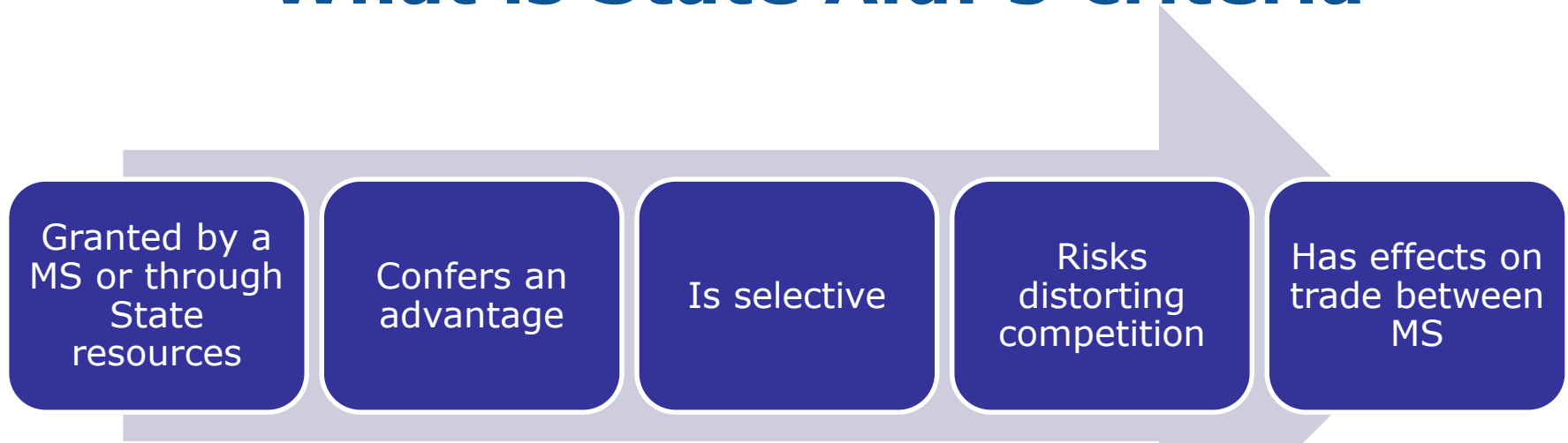- Avoid subsidy races between Member States

How does it work?

- Member States must notify before granting aid
- The Commission assesses and adopts a Decision
- State Aid Decisions can be appealed to the ECJ

State Aid: The basics (II)
What is State Aid: 5 criteria

Granted by a MS or through State resources	Confers an advantage	Is selective	Risks distorting competition	Has effects on trade between MS

- <u>Only</u> State Aid measures need to be notified
- If the measure meets all criteria -> Next step is the compatibility assessment
- If the measure does not meet criteria -> 'No aid' Decision

State Aid: The basics (III) Compatibility principles

- Aim: well-defined objective of **common interest**
- Must be **necessary** : which is the market failure addressed?
- State aid must be an **appropriate** instrument
- The measure must have an **incentive effect**
- Aid must be **proportional**: limited to the minimum necessary
- **Avoid undue negative effects** on competition and trade

Guidelines: RES support

2008 Guidelines Environmental aid	2014 Guidelines Environmental and **energy** aid
• Cogeneration & district heating ➜ • Waste management ➜ • Energy saving • Reductions/exemptions from environmental taxes • Environmental studies • Early adaptation to/going beyond EU standards, or for higher environmental protection in their absence (incl. new transport vehicles). • Relocation of undertakings • Remediation of contaminated sites • Renewable energy sources • Tradable permit schemes	• and cooling (+ networks) • and resource efficiency **New categories** • Reductions in funding support for electricity from renewable sources • Energy infrastructure • Generation adequacy • Carbon capture and storage