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EU Commission: Guidance for state intervention in electricity

The EU internal energy market is essential both to ensure secure energy at affordable prices and to fight climate change. In some very specific cases public intervention might be necessary to attain public policy objectives - but needs be balanced, taking into account the costs and the distortions it can create in the market. The European Commission has today presented a Communication which gives guidance to Member States on how to make the most of public interventions, how to reform existing ones - especially renewable energy subsidy schemes - and how to effectively design new ones. This concerns back-up capacities for renewable energy, mostly fossil fuel energy which is produced when there is no sun or wind.

EU Energy Commissioner Günther Oettinger said: *"The ultimate aim of the market is to deliver secure and affordable energy for our citizens and business. Public intervention must support these objectives. It needs to be cost-efficient and be adapted to changing circumstances."*

If public interventions are not carefully designed they can severely distort the functioning of the market and lead to higher energy prices both for households and businesses. The aim of this Communication is therefore to give the Member States the necessary information, guidance and best practice in hand to make good choice for their national schemes.

Renewable energy support schemes

Renewable energy - both wind and solar - was for a long time a new technology that needed state intervention to develop. With technological progress, investment costs in solar panel falling and production expanding, many Member States have started a reform of their support schemes for renewables.

These principles are best practice in the EU and might be used by Member States planning to reform their schemes:

- Financial support should be limited to what is necessary and should help making renewables competitive.
- Support schemes should be flexible and respond to falling production costs. As they mature, technologies should be gradually exposed to market prices and eventually support must be fully removed. In practical terms this means that feed in tariffs should be replaced by feed in premia or other support instruments which give incentives to producers to respond to market developments.
- Governments must avoid unannounced or retroactive scheme changes. Investors' legitimate expectations concerning the returns on existing investments must be respected.

- Member States should better coordinate their renewable energies strategies to keep costs low for consumers - in terms of energy prices and taxes.

Back-up capacities for Renewable Energy

When the sun is not shining and the wind is not blowing, electricity must still be produced in sufficient quantities to deliver energy to consumers and keep the electricity grid stable. With the increase of renewable energy production, this becomes a challenge. It is for this reason that in several Member States, discussions take place on how to organize and finance back-up-capacities, for example coal and gas power plants which are flexible enough to be turned on and off whenever needed.

The Communication gives guidance on how these back-up capacities can be designed in a cost-efficient way and take full advantage of the European market:

- Before deciding on capacity mechanisms, governments should **first analyse** the **causes** for inadequate generation.
- Secondly, they should **remove any distortions** that may in the first place **prevent the market from delivering the right incentives for investment** in generation capacity. Such causes can be: regulated prices, high subsidies for renewable energy.
- Governments should also ensure that **renewable electricity producers** react to **market signals and promote flexibility** on the demand side, for example by promoting different tariffs to consumers and therefore giving an incentive to use electricity at other times than peak times.
- Any **back-up capacity mechanism** should not be designed having only the national market in mind but the **European perspective**.

Follow up

While the Communication published today is not a legally binding act, it does set out the main principles which the Commission will apply when assessing state interventions relating to renewable support schemes, capacity mechanisms or measures to ensure consumer demand response. They are therefore relevant to the future enforcement of EU state aid rules or EU energy legislation. The Commission will also consider whether to propose legal instruments to ensure that these principles are fully implemented.

Background

The EU has set itself ambitious climate and energy targets. By 2020 we should achieve a 20% reduction in greenhouse gas emissions, a 20% share for renewable in the EU energy mix and a 20% increase in energy efficiency. Member States have made progress to achieve the renewable energy targets, also by state intervention. Based on the different instruments used in Member States, the EU Commission was able to come forward with best practices which may serve for a possible reform of national renewable energy subsidy schemes. With the support of renewables and the increase of the production, the question arose whether back-up capacities also need public support and to what extent.

More information

http://ec.europa.eu/energy/gas_electricity/internal_market_en.htm

Memo on the Communication on "Delivering the internal electricity market. Making the most of public intervention" [MEMO/13/948](#)

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