

Electricity, internal market: production from renewable energy sources, RES-E

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This report from the Commission aims to assess to what extent Member States have made progress towards achieving their national targets and compliance with the target of a 21% share of electricity produced from renewable energy sources. It does so in accordance with Article 3(4) of Directive 2001/77/EC on electricity produced from renewable energy sources (RES-E) in the internal electricity market.

The EU aims at having renewable sources provide 21% of the electricity generated in its 25 Member States by 2010. This target was established in the EU renewables Directive 2001/77/EC, which sets out differentiated national targets.

The overall picture: since the last Commission report published two years ago, 50% additional renewable electricity (non-hydro) has been produced. With current policies and efforts in place, it can be expected that a share of 19% by 2010 will be reached. In other words, Europe will in all likelihood, come close to its target on renewable electricity by 2010. Large and small-scale hydro is still the largest renewable source in the electricity sector. It contributed to 10% of total electricity consumption in 2005. There are other renewable energy sources not described in this report as their current penetration is not significant.

In 2005, renewable electricity contributed 15% to overall EU electricity consumption in the EU. This should be seen against a higher than expected level of overall electricity consumption. In the EU, electricity consumption is growing at 2% per year. However, it should be noted that with the exception of Germany and Spain, the countries making good progress unfortunately represent only a relatively small proportion of the total EU market. In a number of Member States the share of renewable electricity is even declining. With many Member States lacking far behind their national targets, more needs to be done if Europe wants to reverse the trend towards an increasingly unsustainable energy future.

Denmark, Germany and Hungary are on track for meeting the 2010 target, and in Finland, Ireland and Luxembourg, Spain, Sweden and the Netherlands, current developments provide a good opportunity to reach 2010 target. It is mainly due to the efforts of these few countries that the EU may at best achieve a share of 19% of renewable electricity in 2010. Other Member States may achieve their national targets if they strengthen their policies. But a significant number of Member States display decreasing shares of renewable electricity production. The following countries are furthest from meeting their commitments: Austria, Cyprus, Estonia, France, Italy, Latvia, Malta, Slovakia.

The Commission discusses in this report the development of electricity in the different renewable sectors: wind, biomass, hydro, geothermal and solar energy. Wind energy is a clear success with strong European growth and a growing global market. Biomass – the sleeping giant – is starting to wake up, and biogas and co-firing sources have also increased in the last two years.

The Commission states in its analysis that a trend now emerging across the EU is an increasing awareness of the three main drivers of renewable energy: sustainability, competitiveness and security of supply. The industry has historically been driven by “top down” incentives such as subsidies and fiscal measures that are designed to achieve macro-economic and environmental objectives. However, renewable energy demand is becoming an increasingly important “bottom up” driver for the industry. Rising power prices

are forcing consumers to consider different power procurement strategies. Energy demand would continue to rise if energy efficiency measures are not actively implemented. Electricity costs increased on average by 40% between 2004 and 2005 with commercial and industrial consumers hit the hardest.

Renewable energy producers have become important players on the electricity markets. There is a need for the proper integration of renewable energies in the electricity internal market.

The principle of third party access is fundamental to allow investments in renewable energies to feed into the grid and to attract new investors to the market. The operation and the investment in renewables based generation are more efficient when renewable energies are exposed to market price signals. The internal market allows pooling of generation, thus providing efficiency gains for both large scale and small scale renewable production. Cross border trade allows electricity to be sold from an area with a surplus to a wide customer base, or electricity to be imported from a greater distance. This is particularly important for areas with a high density of wind generation.

Renewable energies can also provide a hedge against electricity market volatility. Europe cannot afford to fail on its renewable energy policy. With the current policies in place, the overall share of renewable electricity will reach 19% by 2010. Coming this close to achieving the target can be considered a partial success, although there is still significant scope for improvements. The Commission wants to continue the effort to achieve a sustainable trend in electricity, and recommends the following actions.

Eight main areas of action on renewable electricity must be immediately developed:

- Member States must correctly and fully implement the Directive on renewable electricity;
- immediate lifting of administrative barriers, unfair grid access and complex procedures is necessary;
- optimisation of the support schemes (please see COM(2005)0675) must occur. The Commission will re-examine, in 2007, the situation concerning Member States' support systems for renewable energies with a view to assessing their performance and the need to propose harmonised support schemes for renewables in the context of the EU internal electricity market. While national schemes may still be needed for a transitional period until the internal market is fully operational, harmonised support schemes should be the long term objective;
- to wake up the biomass sector through the actions in the Biomass Action Plan;
- special attention shall be given to increasing of the use of biomass for combined heat and power (CHP);
- credibility in the long term: the Commission will propose in 2007 a new legal framework for the promotion of renewable energy sources as set out in the Renewable Energy Roadmap;
- the Commission will continue to co-operate closely with grid authorities, European electricity regulators and the renewables industry to enable better integration of renewable energy sources into the power grid and will pay particular attention to the special requirements related to much larger deployment of off-shore wind energy, notably as regards cross-border grid connections. Opportunities provided by the TEN-E scheme should be examined. Work should begin on a European offshore super-grid;
- the internal electricity market shall be developed in a manner consistent with the development of renewable energies. Liberalisation, in particular concerning transparency, unbundling and higher inter-connectors capacity, also offers the opportunity for new innovative players to enter the market;

- lastly, renewable energies should be speedily integrated into the Lisbon strategy of the EU through the competitiveness and innovation programme (CIP), regional and cohesion funds, rural development and reinforced RTD in the period 2007-2013.