

Targeted Consultation for the Evaluation of the Guidelines on State aid for Environmental protection and Energy 2014-2020 (EEAG)

Public Consultation

Please describe the main activities of your company/organisation/association, if applicable.

The Portuguese Renewable Energy Association (APREN) is a non-profit association, founded in October 1988, with the mission of coordination, representation and defence of the common interests of our Members.

APREN represents mainly company owners of renewable powerplants as ordinary members, though any stakeholder or organism with interest in the deployment of renewable electricity can become an active member, as an extraordinary member.

APREN represents more than 90% of all installed capacity of renewable electricity sources in Portugal.

APREN develops its work together with official authorities and other similar entities, nationally and internationally, being an important key player in the development of energy policies for Portugal, promoting the deployment of renewable resources for electricity generation. The Association privileges the coordination and permanent contact with the Portuguese Government, the ministries responsible for energy and environmental issues and their official agencies, as well as a fruitful dialogue with the crucial national stakeholders related to the renewable electricity production and with representatives from the civil society.

APREN has also a strong involvement at the European level, which primarily manifested through the participation in European projects and through its partnership with several European Associations that defend the renewable electricity generation technologies that APREN represents, thus enabling the monitoring of European Energy Policy and developments in the sector in other Member States of the European Union.

Please describe the relevance of State aid rules for you.

Portugal, between 2000 and 2018, raised the renewable electricity installed capacity from 4.8 GW to 14.1 GW, from which 5.3 GW is wind capacity, 0,8 GW biomass, 0,7 GW solar PV and 7 GW Hydro (both small and large hydro). This growth allowed to reach a renewable electricity generation share of around 54% in 2018, one of the highest in Europe, and with several important positive externalities for the national economy.

The scenario was only possible throughout a very strong commitment to fulfil the EU targets, but mainly to increase the energy independency, gain economic competitiveness and fight climate change. The main energy and climate policies were translated in well-defined action plans that promoted renewable electricity based on support mechanism that were updated throughout the years. The main boost, took place between 2002 and 2012 through the increase of wind capacity from 0.2 GW up to 4.5 GW, reaching 5.0 GW at the end of 2015.

The support mechanisms were based not only in feed-in-tariffs but also in tenders that allowed not only the deployment of clean energy but, more importantly, the placement of an industrial cluster including the manufacturing of blades, rotors, towers, nacelles, cables, inverters and other electronic components, as well as, the creation of local value ensuring benefits to local communities, as well as, generating local employment.

Nevertheless, after 2012 with the Portuguese economic crisis and with drastic changes in the support mechanism regulations, RES-E sector began struggling with lack of deployment. FiT for utility scale renewable power plants was extinguished and until 2018 no capacity auctions were launched. Therefore, investments in new large RES-E power plants almost stopped due to the absence of predictable and stable regulatory frameworks and the risk associated to pure merchant projects. Last year, some PV projects started in operation through with resource to PPAs as a required bankability condition with retail energy suppliers giving a “glove of fresh air” to the sector, but not enough to put Portugal back on track for the towards the 2020 targets, and not enough to meet the ambitious targets for 2030. Meanwhile, the government announced the solar PV tenders to take place during the summer, which created a wave of interest and expectation throughout the different market players operating in the renewables sector. The prequalification phase closed earlier this month (July 2019), and so far, the first results are pointing to a demand is more than 7-fold the capacity available in the tender (1.4 GW), displaying the importance that tenders have for renewable deployment.

So, state aid rules are of extreme importance for the development of the renewable electricity energy sector as they represent a tool for Member States to design national support mechanisms for renewable energy with internal market rules. APREN considers vital the evaluation of the Environment and Energy State Aid Guidelines (EEAG) given the challenge to achieve the EU targets providing our better effort to contribute with our view and concerns.

How would you best describe the nature of your understanding and involvement in matters related to State aid rules?

APREN, as an association that actively participates and monitors the deployment of the National and European energy policy and regulation, followed the preparation and implementation of the currently applicable guidelines with close collaboration with our members and other European Associations from which APREN is a member.

Based on your experience, to what extent have the EEAG and the corresponding GBER provisions (e.g. tendering, technological neutrality, market integration) been effective in:

Competitive, well-designed and transparent tenders are still necessary to secure stability and cost reduction in the renewable electricity sector. Also, to assure the development of the Portuguese and the European industry is a key point to have long-term visibility and framework stability. Tenders allow promoters and the industry to plan investments in expertise and skills, factories, infrastructures and research and innovation. Moreover, it creates jobs and contributes directly to the national GDP. A well-structured stability mechanism aggregated to a schedule for capacity allocation over the years, including the timing and budget for competitive bidding processes is fundamental for Portugal to achieve the ambition target of 80% renewable share in electricity.

Tenders should be organised on a regular basis, at reasonable notice and should provide visibility on the size and overall capacity to be awarded over multiple years. Tenders visibility allows for better planning in the research and manufacturing of components, the deployment of infrastructure, the planning of the supply chain and finally the deployment of the power plants. Such coordination and visibility allow for an efficient renewable electricity generation industry, more competition and an overall price reduction.

Of upfront importance is that **tenders should be technology-specific** to optimize the deployment of generation according to seasonal resource availability and demand fluctuations. In an electricity mix with high shares of variable renewable technologies, it is essential to secure and optimize the system's balance, flexibility and resilience, by adapting it to different production profiles, while making sure that the demand needs are completely fulfilled without any diagram lags, which can only be achieved through correct planning of the tenders for each technology.

Moreover, none of the technologies using a different power source is competing on the same level even if potentially they have similar generation costs: for example, permit requirements and permitting lead time are different across technologies. In Portugal, for example, wind market is reaching a point where the main developments will be related to repowering, while nowadays solar PV is starting its upward curve, so it is senseless to apply neutral tenders.

Although, **price-only should be the main criteria for tenders, it is important to secure and to promote circular economy**, local industry and services and excellence in the projects, so, environmental sustainability and quality measurable criteria should be addressed, mostly if Europe wants to create a level of playing field and boost a competitive industry.

Another important step is the prequalification phase for tenders. Governmental entities must assure that projects awarded are timely built to meet the expectations of the national plans. This phase should require a guarantee of compliance from the promoters, in order to minimize the risks of project non-realisation and to avoid delays in the approval processes in several administrative stages.

Permitting procedures is a key issue in Portugal that impose huge diligences from promoters, creating huge concerns for developers in the bidding processes. For example, the tender launched recently

imposes a tight schedule for promoters to build the power plant, without any guarantee that the administrative and permitting procedures will be streamlined. Further, Portugal does not have a one-stop-shop, leading the promoters to deal with a non-coordinated and time-consuming process, in which the response periods tend to extend in time, ending in a process that the project timeline to finish the permitting procedure is unpredictable.

Clearly, **the simplification of administrative and permitting procedures is a prerequisite to promoters' ability to bid in competitive bidding rounds**. Burdensome procedures should be streamlined and shall include a one-stop-shop arrangement that coordinates a multi-level authorization process. National authorities should aim to shorten permitting timelines and align them with the national schedules for public support allocation.

The Governmental authority responsible must transcribe as soon as possible the set of requirements imposed by the European Grid Codes concerning the Requirements for Generators, without imposing excessive rules and requirements to generators comparing with neighbours' countries.

Moreover, **it should be very clear in the bidding procedures which grid connection costs are imposed to promoters**. Recent changes in the Portuguese regulation imposes to new generation connections the payment of deep costs of the grid besides all the direct connection and substation reinforcement. General grid reinforcement and expansion should only be addressed to TSO and DSO budget, as entities with the concession of public service and not transferred to renewable energy projects, which have less competitive power to finance projects, translating in different corporate and operations risks (comparing IPP's WACC with TSO and DSO WACC for grid development management and operation) and might create distortions in the bidding process competition.

Based on your experience, have Member States created a level playing field for imported and domestically produced biofuels and/or biomass energy when providing support (for instance by supporting a specific type of domestically produced biofuels and/or biomass energy, but not other types of biofuels and/or biomass energy with similar costs or greenhouse gases emissions)?

- Yes
- No
- Partially
- I don't know

Biomass in Portugal is a huge concern, due to geographic and weather characteristics, forest biomass management imposes challenges that require specific policy and regulation to promote and incentivize private owners to value their lands. So, support mechanisms for biomass has incentivized, to some extent, the cleaning of residual biomass from forests, which is imperative to prevent summer fires, that have been taking place every year and triggered important social and economic losses, mainly in rural less-resourceful areas.

Based on your experience, has State aid granted under the EEAG or the GBER generally achieved the relevant climate and environmental protection objectives while maintaining a competitive internal market?

- Yes
- No
- Partially
- I don't know

From the Portuguese experience, and specifically regarding the renewable energy sector, support mechanisms for renewable deployment were a key point in achieving an important level of decarbonization of the electric sector and, even more, putting Portugal in the position to be able to cut coal production until 2030. In fact, the electric sector was the one that most contributed to emission reductions in Portugal, allowing to achieve the 2020 target with less efforts from H&C and transports.

Based on your experience, has State aid granted under the EEAG or the GBER generally achieved the relevant energy objectives while maintaining a competitive internal market?

- Yes
- No
- Partially
- I don't know

As mentioned, the lack of tenders or any other support mechanism in last years (between 2012 and 2018) placed Portugal in a path that incurs in the possibility of not achieving the 2020 targets for renewable energy. Thought, the experience with tenders before 2010 allowed Portugal to achieve great goals achievements in the sector, by creating an industry cluster that is capable of exporting for important international markets and that will be very an important significant vector in the achievement to the higher ambition targets for 2030. Nevertheless, stakeholders and the government are aware of the main difficulties and barriers that resulted from these procedures that need to be tackled in future.

Regarding the electricity market, internal market competitiveness has mainly been undermined by the fact that MIBEL is not well connected with the remaining European markets, due to lack of interconnections and also, to the different administrative burdens, taxes and fees applied throughout the Iberian Market.

Based on your experience, have the minimum own contributions of the full electricity surcharges of 15 % of the full renewable surcharge, and 4 % and 0.5 % of the Gross Value Added of the undertaking concerned (see points 188 and 189 of the EEAG) been adequately set to ensure a sufficient financing basis for the underlying energy policy?

More than discussing the exemption level 15% for EUIs is too low or too high, Europe should prevent and defend the competitiveness of its industry in the international markets during the all process for

decarbonization of economy (supporting environmental and social dumping). So, State aid rules should mainly focus in strategies for energy procurement, particularly the negotiation of green tariffs and corporate renewable Power Purchase Agreements based in the guarantees of origin in order to define levels of exemption from the renewable energy surcharges.

Based on your experience, have the EEAG and GBER adequately addressed recent market developments or technological changes such as:

The average aged of the Portuguese wind fleet is 10 years, so between 2020 and 2030, almost every wind turbine will reach the end of its operational lifetime. **So, it is imperative to create a regulatory framework, that gives investor a sign that projects would be visible and bankable, defining specific rules for repowering of wind turbines in order to maximize the efficient use of the wind energy resources** located at the best sites and use the best available technologies with the least use of land. This sense, the national strategy should ensure that decommissioned volumes are added on top of the yearly national support mechanisms and that repowered projects can compete fairly with new installations. Failing to do so would artificially push the development of new projects when repowering ones would be the best and more efficient solution both for the society and for the economy

PPAs are out of the scope of state Aid, since they are a private agreement between a renewable energy producer and an end consumer (still no specific regulation in Portugal). RES PPAs are an important tool for revenue stabilization of renewable energy producers, while allowing, at the same time, energy intensive industries to buy clean electricity at a competitive market price. However, in Portugal, companies with size and negotiation power to establish RES PPAs are a niche market, so, PPAs will not scale to replace support mechanism. RES PPAs should not have regulatory barriers or exaggerated administrative burdens, and official bodies should create revenue stabilisation mechanisms that can co-exist with RES PPAs revenues, in order to balance the overall systems costs.

Small-scale solar installations are one of the backbones of a smart, decarbonised and increasingly distributed energy system, empowering energy consumers, communities and regions with a clean and affordable electricity supply. Small-scale solar installations support the competitiveness of national micro, small and medium-sized companies operating in the manufacturing, installation, maintenance and operation of these facilities. These sectors are important creators of local, sustainable and skilled jobs that will make the local green economy a local reality. However, the economic potential of such installations is not yet fully met in Portugal.

Of utmost important it is that small-scale solar installations, due to their specifications, are not fit for competitive bidding procedures, and require mechanisms to address local fickleness and simplified procedures approachable to the common citizen and even as pillar to fight energy poverty. So, market rules or competitive bidding should therefore remain eligible for small-scale installations and energy communities' projects.

Stand-alone energy storage systems should be treated as any other technology that offers services to the electricity system. As a principle, storage technologies should not be treated differentially from other technologies in the market. This includes prequalification criteria and procurement rules. For example, if storage is to offer flexibility to the electricity system by offering balancing services, it should follow the same general principles on product and procurement rules than any other technology. Likewise, market rules should not preclude energy storage participation.

Based on your experience, to what extent are the EEAG and the related GBER provisions coherent with relevant EU policies and legislation such as:

EU and Member States decarbonization objectives will require a huge effort from market players, entities and citizens in gathering expertise and finding new solutions to achieve the commitments in the best affordable and efficient way, while keeping or even increasing the industry's competitiveness. For this, the EEAG revision requires a full understanding and compliance with the European vision of achieving a 32% renewable energy target, by respecting the requirements stated on REDII regarding the support mechanisms for RES integration and, more importantly, by understanding the bottlenecks of variable RES without a predictable stable framework.

Despite the efforts to create a single European market, the different electricity markets are still striving to achieve the same level of playing field for the renewable electricity sector, and the higher the share of renewables the most difficult will be to predict prices fluctuations, which may create instability and increase risk to new investments. If Europe wants to achieve an internal competitive single market, the costs must be driven to as low as possible, and this can be done, as past experiences have proved us, through tenders.

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