

## WindEurope feedback to the call for contribution on Competition Policy supporting the Green Deal

19 November 2020

A successful delivery of the European Green Deal hinges upon Europe ramping up renewables-based direct electrification, the most cost-effective and energy efficient way to decarbonise final energy uses such as road transport, buildings and industrial processes. Europe needs to increase the share of electricity in its energy mix from today's 24% to more than 60% to deliver on climate neutrality.

Wind energy will be central to this as the most easily scalable and competitive form of new power generation in many countries in Europe today. The European Commission's Long-Term Decarbonisation strategy says Europe will need up to 1,200 GW of wind energy from 192 GW today to be compliant with the Paris agreement. This means that wind will cover more than half of Europe's electricity demand and will be the largest source of power generation in 2050.

Revenue stabilisation mechanisms are indispensable to deploy the necessary wind volumes at least cost for society. Wind is a capital-intensive investment: it has high upfront costs but very low running costs. This makes financing a very significant share of the overall cost. Minimising finance costs is therefore essential.

**Having a predictable income from stable revenues is the most important way a wind farm can minimise its finance costs. Government auctions that offer stable revenues are crucial to attract investments** and to provide cheap money to wind energy projects and thereby deliver lower electricity prices to society.

WindEurope welcomes the possibility to provide feedback to the European Commission in view of its revision of the EU competition policy. State aid rules are of utmost importance for the development of the wind energy sector as they represent the tool used by the European Commission to assess the compatibility of revenue stabilisation mechanisms for renewable energy with internal market rules.

Aligning EU state aid policy with the Green Deal objectives means for the European Commission to:

1. **Ensure two-sided Contracts for Difference (CfD) are applied by Governments.** They are the best revenue stabilisation model Governments can offer for renewable energy deployment. CfDs offer wind farms a fixed strike price for the electricity they produce. When the electricity price is higher than the strike price, the wind farm pays the Government the difference. When the electricity price is lower than the strike price, the Government pays the difference to the wind farm. Over the lifetime of a wind farm, a Government could well break even if not make a profit. And banks are happy to lend money to wind farms because they are able to predict their future revenues very accurately.

Without revenue stabilisation the financing costs raise significantly, increasing massively the overall project costs and costs to society. For instance, an offshore wind farm supported by a two-sided CfD has a typical electricity cost of €50/MWh, whereas a wind farm built without such support typically has an electricity cost of €92/MWh. Importantly, the so-called 'zero bids' are an exception to the rule and

not the new normal. They are only possible in certain markets, for some developers and under very specific project conditions.

2. **Continue to support technology-specific auctions.** These are the best way to provide this visibility to investors and is tailored to the generation specificities of different power sources. Technology-neutral auctions often result in one technology constantly winning over others, therefore not exploiting the complementarities of the different generation profiles across technologies. This complementarity is essential to guarantee a balanced energy system and flows as Europe electrifies its economy with renewables to fulfil the Green Deal. Technology-specific auctions are fully in line with the Governance Regulation and the Renewable Energy Directive (in particular its Art. 4), and the provisions therein asking Member States to provide long-term visibility over renewable energy volumes by technology.
3. **Ensure Governments provide long-term visibility on wind energy volumes in auctions.** This is key to industrial planning and the ability to further cut down costs. It allows the wind industry to realise long-term investments in factories, infrastructures (e.g. ports, shipyards, roads), skills development, test facilities, research and innovation. Investments create jobs and deliver revenues to national budgets. All of this contributing to a swift economic recovery post COVID-19. It is the Commission's responsibility to ensure Member States respect the Clean Energy Package rules on at least 3-year upfront visibility on auctions and that they deliver the auction pledges of their 2030 National Energy & Climate Plans.
4. **Ensure various forms of revenue stabilisation mechanisms are complementary** – for instance corporate Power Purchase Agreements (PPAs) and Contracts for Difference. PPAs enable companies to procure renewable energy to meet their sustainability commitments, providing a form of revenue stabilisation. They lock in energy prices for consumers and unlock financing for renewable energy providers. Today Europe already has over 10 GW of renewable energy capacity contracted through PPAs. Europe's State aid policy should allow PPAs to co-exist with CfDs, helping deliver a cost-effective transition.
5. **Allow repowered projects to compete in auctions.** A significant share of the EU installed wind energy fleet will come to the end of its operational lifetime between 2020 and 2030. Repowering projects should be able to compete in auctions on par with new wind projects. This will allow to use efficiently the wind energy resources located at the best sites, the best available technologies with the least use of land. And will produce more clean electricity at the least cost while increasing social acceptance.
6. **Ensure industrial and commercial consumers transition to an electricity-based energy supply.** The change to the ETS State Aid Guidelines enabling energy-intensive industries to qualify for indirect ETS cost-compensation when procuring renewable electricity is an important step in the right direction. It is now essential that the Commission ensures this is properly implemented at the national level.
7. **Ensure the EU support to renewable hydrogen reflects its contribution to delivering climate neutrality.** Renewable-based direct electrification will be the key driver to decarbonise industry, transport and buildings. But where this is neither technically feasible nor cost-efficient, renewable hydrogen will be crucial. All EU policies should be consistent in providing a clear and simple definition of hydrogen and hydrogen derivatives, where renewable hydrogen is the reference baseline (i.e. the hydrogen produced through electrolyzers using 100% renewable electricity). Renewable hydrogen is "the most compatible option with the EU's climate neutrality", as stated in the recently published Hydrogen and Sector System Integration Strategies. A robust methodology for counting the CO<sub>2</sub> emitted during the

production of the various hydrogen types will be crucial in this respect together with measures to scale up renewable hydrogen production. The current Energy & Environment State Aid Guidelines put non-renewable energy-based hydrogen in a more favourable position as compared to renewable hydrogen – and this should be changed.

8. **Provide a level-playing field between fossil fuel and electricity taxes.** European state aid and competition rules should factor in the need for a shift in the national tax structures and levies, which have historically favoured fossil fuels to the detriment of electricity. They should actively encourage adjustments to national levies that support renewable electricity sourcing as a driver for climate neutrality. This would support the deployment of renewable hydrogen, where electricity represents 65-80% operational cost of electrolyzers.