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perspectives until and beyond 2020

**Case study: Statistical Transfer between
Estonia and Luxembourg**

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Content

- The main design characteristics
- Costs and benefits of this cooperation
- Barriers to this cooperation and ways to solve them
- Practical arrangements
- Conclusion

General introduction to the case study

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- **Estonia** is expected to have a surplus of renewable energy up to 2020.
 - Share of RES reached 25.9% in 2011 (above the EU-target of 25% in 2020), 24.8% in 2012 (due to change in support scheme)
 - Estonia would like to sell the excess RES amount to cover cost of the related RES production and to reduce the burden on electricity consumers in Estonia.
 - Currently, Estonia has made a draft legislation that sketches the concept for Statistical Transfers.
 - Main motivation: to have the legal basis in place today, so to enable actual negotiations with other Member States.
- For **Luxembourg** it will be difficult to meet its national RES target (11% in 2020) using domestic resources only.
 - A balanced approach between domestic deployment and exploitation of lower cost options in other countries might lead to meeting at least 2% of the target through Cooperation Mechanisms (estimate from NREAP)

Design characteristics, costs and benefits,
barriers, contractual arrangements

Design characteristics, main issues - I

- Both Luxembourg and Estonia have expressed a slight preference for Statistical Transfers over other Mechanisms
 - Perceived advantages over other schemes:
 1. technology neutral (in principle),
 2. the implementation is seen as easiest and administrative costs are lowest
 3. the easiest from the perspective of state aid regulations (as basically no changes occur in the existing support schemes for RES in both countries).
- Luxembourg prefers a **multiannual** contract to meet interim targets and to ensure long-term cooperation with the host country
 - Such a contract brings more certainty for both parties.

Design characteristics, main issues - II

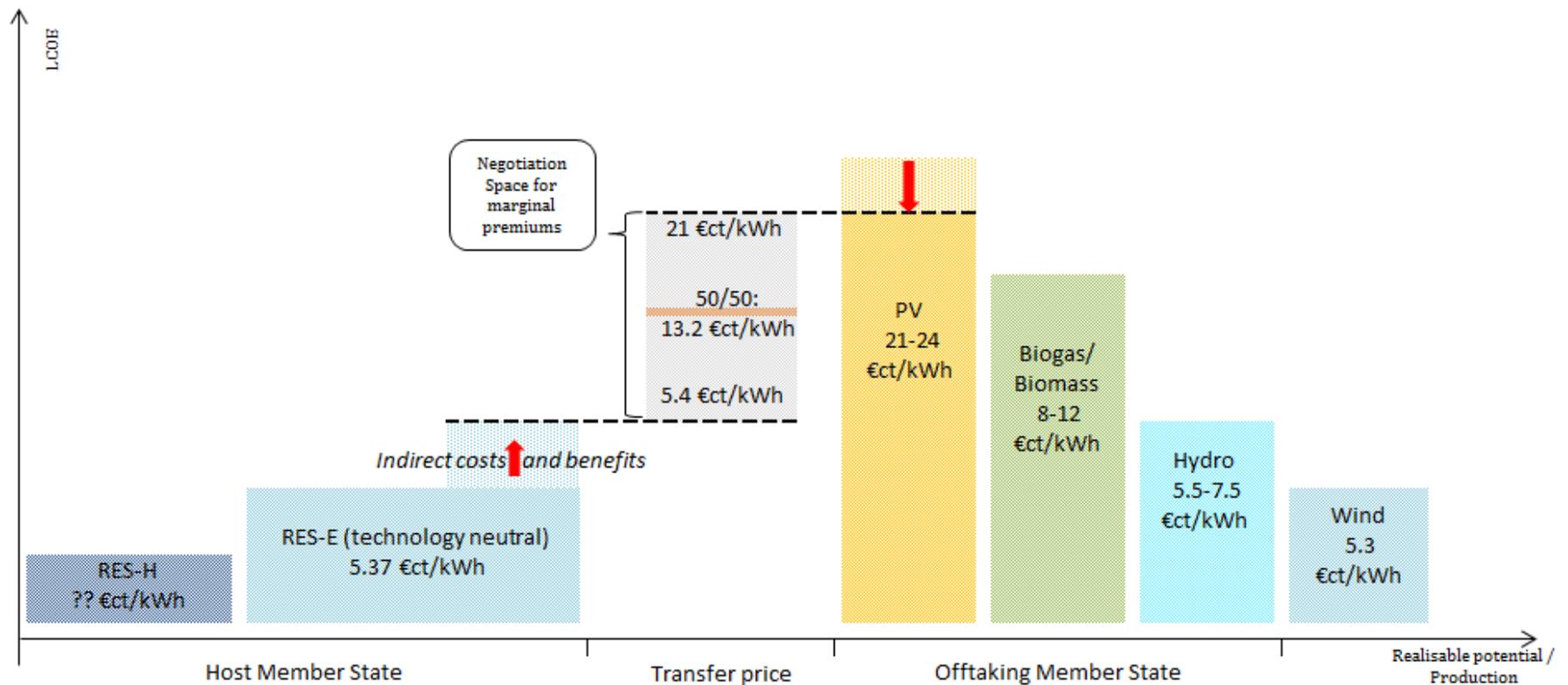
- Both MS have a clear preference for a **bilateral contract** with a **binding sales contract** (and fixed ex-ante volumes) as this:
 - is suitable in case of predictable surplus
 - ensures a predictable revenue stream for selling Member State
 - gives higher planning certainty for buying Member State
- Statistical Transfers as such are technology neutral, but:
 - Under certain circumstances, it might be useful to connect the ST to a specific technology with regards to political acceptance of the cooperation.

Costs and benefits

- Out of numerous costs and benefits, the following ones have been selected as the most important ones when setting a price for transfer:
 1. Support costs for RES in Estonia vs. support costs for RES in Luxembourg
 2. Increased grid related costs in Estonia vs. decreased support costs for RES in Luxembourg
- Ad 1: with certainty, support costs for RES in Estonia are lower than in Luxembourg (as this was the main motive for Luxembourg to consider Statistical Transfer).
- Ad 2: the grid related costs are uncertain. Not within scope of study to say whether the increase in RES capacity in Estonia has led to additional grid related costs and how to take these costs into account when calculating a transfer price.

Costs and benefits – example for determining the price corridor (hypothetical)

- The upper price limit is determined by Luxembourg as the buying party.
- A possible price corridor is between the marginal costs of additional RES capacity of both countries



Costs and benefits – price corridor

- The **lower limit of the price corridor** is determined by Estonia as the selling party
 - Estonia has a uniform 5.37 €ct/kWh premium for new RES installations. Potentially, Estonia will seek to recover its support costs.
 - Alternatively, it might accept a lower price to recover at least part of its support costs.
- The **upper limit of the price corridor** is determined by Luxembourg as the buying party. Several options are possible:
 - The price cap is defined by the alternative cost of domestic RES deployment (opportunity cost). Then, Statistical Transfer is a complementary alternative to own domestic RES deployment development, e.g. if not enough projects are available domestically;
 - The upper limit might be defined by the willingness to sell of other Member States with a surplus

Potential obstacles and how to overcome them

- **Public acceptance** of the Statistical Transfer (in general and/or in comparison to other cooperation mechanisms) – benefits of cooperation need to be clearly communicated:
 - Difficult to communicate the role of the buying country that is sponsoring RES deployment abroad (Luxembourg)
 - Statistical Transfer does not imply physical transfer of RES-E, is more difficult to explain.
- Estonia mentioned the lacking progress on implementing domestic legislation allowing for the government to participate in cooperation mechanisms as a **legal barrier**.
- **First mover risk** – i.e. engaging in cooperation mechanisms without building on the experience and best practices of other countries that have done so previously, is a barrier (e.g. without first projects that could be used as price setting).

Practical arrangements

- For the time being no changes to the national renewable energy legislation seem required
- **Estonia:** Costs for financing renewable energy support (feed-in premiums) are passed on to consumers → the transmission network operator finances the support and thus passes on a lesser surcharge to the consumer.
- **Luxembourg:** suggest to develop legislation to generate necessary financing for Statistical Transfer (e.g. including an extra charge on energy consumers to generate funds in the renewable energy law).
- One could turn to the fund from which the renewable energy support in Luxemburg is financed, and use this money to finance the Statistical Transfer.

Conclusion

Conclusion

- Many different configurations possible to meet exact requirement for participating Member States
- Fixed volumes for bi-lateral and multiannual contract most feasible option (call-options so far not considered)
- Price setting: purely hypothetical in this study, but different approaches are possible. High uncertainty regarding actual price corridors – outcome of negotiations rather than “objectively correct” price.

Contact for more information

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