

Brief summary: Instrumental shift in the German RES support scheme

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Dr. Kerstin Tews, Environmental Policy Research Centre, FU Berlin

Over the last year the German government has made a fundamental instrumental shift in its support scheme for renewable energies. Not only will direct marketing be mandatory for all newly installed renewable energy facilities with a capacity of more than 100 kW by 2016 – as we heard in Sandra Wassermann's presentation.

But also by 2017 Germany will replace the price-based FIT (feed-in tariff) scheme with a volume-based auction system, in order to determine the price or the level of support granted to RES via a competitive bidding procedure.

This volume-based auction scheme not only fundamentally differs from the previous price-based support scheme with administratively fixed prices for RES.

It is also perceived by many stakeholders as influencing or even threatening to stall the so called "energy transition from below". Just to remind you that the FIT scheme and other provisions of the former renewable energy act in particular sheltered small-scale and new actors' investment in RES in Germany. According to the only available science-based analysis of actor constellations in the renewable energy market more than one third of installed RES capacity was set up by local or regional initiatives in which citizens have the majority of the decision-making power.

It was this policy which enabled the new actors' engagements in the energy field.

Due to:

1. Risk reduction for investors via

- A fixed price per kWh fed into the grid, over 20 years
- Technology-specific remuneration rates according to the maturity of the technology

Risk reduction is relevant for actors, who cannot diversify risks (e.g. households, small enterprises etc.)

2. Minimizing transaction costs in the selling of RES-E

- Purchase obligation for grid operators
- Priority access for RES electricity to the grid

Low transaction costs in the selling (trading) of power are relevant for new actors unfamiliar with established rules in the energy field (e.g. households)

Both of these conditions that enabled new actors/challengers to engage in RES deployment have been changed by the new political framework adopted last year.

Many stakeholders raised concerns about the auction mechanism, which is perceived to fundamentally threaten the continued engagement of those actors who had driven the transition thus far.

The following risks are assumed to affect the actor constellation in the energy field:

- Higher transaction costs for investors taking part in auctions
- Higher risks for investors
- Exclusion of smaller players – due to limited affordability re. costs or risks for cooperatives and private actors
- Threats to the process of decentralization of the energy system through spatial concentration of generation facilities (hotspots)
- Exclusion of less mature RES technologies.

Furthermore, in view of the practical experiences of other countries the effectiveness in terms of low rates of project implementation caused, for example, by underbidding, and the ostensibly cost-minimizing effect of auction schemes, is also questionable.

This year Germany started the pilot bidding rounds for ground-mounted photovoltaic systems. Up until now there have been 2 bidding rounds with different auction scheme designs – to test the outcomes. These pilot bidding rounds are intended to deliver the necessary lessons required for the introduction of mandatory auction schemes for all new renewable energies in 2017.

The German government has repeatedly declared that it will not threaten actor diversity and subnational efforts toward a low-carbon energy transition, and that it will consider stakeholders' concerns when designing the German auction scheme. Most recently - at the end of July - the German Ministry of Energy and Economy published a consultation paper which discusses matters related to the design of the future auction scheme.

However stakeholders remain concerned, also as a result of the outcomes of the first two bidding rounds.

Thus, we currently have a lot of discussion about the specific design options for the auction scheme which will allow - at least three - of the intended aims of the new scheme to be fulfilled, namely:

1. Reaching expansion targets for renewables
2. In a more cost efficient manner
3. While maintaining actor diversity in the energy field and public acceptance

I would like to raise the question – maybe for our discussion later – as to whether there is a potential trade-off between these goals.

We know from comparative studies that the potentials and risks of auctioning depend on the specific design of the instrument in terms of:

- auction procedures
- exemption rules
- its technological and spatial focus
- qualification requirements, and
- penalties for non-realization.

There are a few experiences available, for example that of Denmark, which demonstrate how to further ensure new actors' and local communities' engagement, namely:

- by introducing location-specific tenders
- by providing information on local resource conditions before the submission of a tender, which allows more equal conditions for all potential bidders
- or by introducing participatory elements with mandatory local resident participation in the projects.

Thus it seems clear that further engagement of new actors in the energy field depends crucially on the political willingness to introduce normative elements into a market design.

But, all of these normative additions to a market-compatible instrument, which are aimed at the most cost-efficient spatial allocation of RES facilities, will, of course, influence the instrument's cost efficiency. And this is what I meant early by trade-offs...

On the other hand, the additional costs of incorporating normative elements will likely have a pay-off in the form of public engagement in energy transition issues and public acceptance of new energy infrastructures.