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Clean Energy for All Europeans Package: The revised Renewable Energy Directive "RED II"

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Brief background

- In **January 2014**, the European Commission proposed a new policy framework for climate and energy to extend the EU 2020 objectives from the year 2020 to the year 2030.
- In **October 2014**, the European Council reached an agreement on three higher EU-wide targets to be achieved by 2030:
  - a 40% cut in greenhouse gas emissions compared to 1990 levels;
  - at least 27% of renewable energy in gross final energy consumption; and
  - at least 27% energy savings compared with the business-as-usual scenario.
- The European Council agreement on the 2030 targets was followed by the release of the **Energy Union Framework Strategy** in **February 2015**, one of the main objectives of which is to make the EU ***"the world leader in renewable energy"****.*
- In **November 2016**, the European Commission published the package of legislative proposals entitled "**Clean Energy for All Europeans**" for the period 2020-2030, also commonly referred to as the "Winter Package", aimed at bringing EU legislation in line with 2030 targets.
- The package has three main objectives: putting **energy efficiency** first, achieving global **leadership in renewable energies**, and providing a **fair deal for consumers**.

Brief background (continued)

- The package consists of **eight proposals** to facilitate the **transition to a 'clean energy economy'** and to **reform the design and operation of the European Union's electricity market**.
- This package of proposals can be grouped into **three categories**: proposals amending existing energy market legislation; proposals amending existing climate change legislation; and proposals for new measures. In EU jargon, a full revision of an existing measure is known as a '**recast**'.
- The second category of measures, which aims to better align and integrate climate change goals into this new market design, includes a proposal for the full revision of the current Renewables Directive 2009/28 (commonly referred to as **RED**).
- The proposal for the recast of RED is one of the most important steps for the implementation of the Commission's priorities to build "a resilient Energy Union and a forward-looking climate change policy".
- Following the adoption of the Council's position on the proposal on 18 December 2017, the trilogue negotiations with the European Parliament started on 27 February 2018. Following intense negotiations, a provisional deal was reached between the co-legislators on the revision of RED (**RED II**) at the fifth and final trilogue meeting on **13-14 June 2018**.
- Following this political agreement, the text of RED II was formally approved by the European Parliament on **13 November 2018**.
- Final adoption of RED II by the Council is expected within the coming weeks.

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RED II - Key revisions to RED

- Sets a new, binding, renewable energy target for the EU for 2030 of **32%**, including a review clause for an upward revision of the EU level target by 2023 (Article 3).
- Improves the design and stability of support schemes for renewables and introduces requirements on the opening of these schemes to installations located in other Member States (Articles 4 to 6).
- Delivers real streamlining and reduction of administrative procedures for the granting of permits (Articles 16 and 17).
- Includes amendments to the rules on guarantees of origin (Article 19).
- Establishes a clear and stable regulatory framework on renewable self-consumers and energy communities (Articles 21 and 22).
- Increases the level of ambition for the heating/cooling and transport sectors (Articles 23 to 25).
- Improves the sustainability of the use of bioenergy (Article 26).
- Subsumes obligations related to monitoring and reporting on RES under the proposed Regulation on Governance of the Energy Union, while those relating to grid access and priority dispatch for RES generation are transferred to the proposed Regulation on the internal electricity market.

RED II – Key revisions to RED (continued)

2030 EU Target and "minimum baselines"

- The 2030 Target of 32% share in final energy consumption is binding only at EU level, meaning that it is not translated into individual targets per Member State as is currently the case under RED.
- However, the current 2020 binding national targets (under RED) are maintained as a "minimum baseline" for individual Member States from 2021 onwards.
- RED II itself does not contain enforcement mechanisms to achieve the 2030 Target or to maintain the "minimum baseline" for each Member State. However, certain provisions on means to enforce the Union 2030 Target and the "minimum baseline" are set out under the proposal for a Regulation on the Energy Union Governance.
- The Commission should re-assess the 32% target by **2023**, and possibly issue a new legislative proposal that increases the level of ambition. Such a proposal could be justified on the basis of significant cost reductions in renewable technologies, in order to meet international commitments on decarbonisation (for instance, the Paris Agreement on Climate Change), or if EU energy consumption falls considerably.

Design of the support schemes

- RED II **imposes a number of design principles** that are largely aligned with the basic principles of the EU State Aid Guidelines for environmental protection and energy for the period 2014-2020 (**EEAG**). These emphasise that Member States may apply support schemes so long as these avoid unnecessary distortions of electricity markets, take into account balancing and grid constraints, and respond to market signals through **competitive tendering**.

RED II - Key revisions to RED (continued)

- RED II makes the opening of RES support schemes to **cross-border capacity** an **indicative choice** for Member States, setting modest targets of 5% per annum (2023-2026) and then 10% per annum (2027-2030). It also envisages that the Commission shall adopt a legislative proposal in 2023 to introduce binding obligations on cross-border capacity, if the indicative approach does not work.
- Also, to better activate the existing provisions for **statistical transfers**, RED II establishes an **EU Renewable Development Platform** that will include Member State data on RES contributions and may include prices for statistical transfers. The Commission would also have a more prominent role in facilitating joint projects and support schemes, provided for in the original RED but hitherto used only to a limited extent.

Stability of support schemes

- Member States must publish in advance their long-term schedule on their expected financial support schemes, covering **at least the next three years**, and including indicative timing, capacity sought and available budget.
- Moreover, RED II provides that, once support has been granted, then (subject to state aid rules) **its level and conditions cannot be revised** in a way that negatively impacts acquired rights or the economics of supported projects. This is one of the most important amendments introduced as it **puts an end to retroactive changes**.
- The level of support **may be adjusted only** on the basis of **objective criteria** that are established in the **original design** of the support scheme.
- Member States must publish **assessment reports** concerning the effectiveness of their support schemes at least every five years.

RED II – Key Amendments to RED (continued)

Streamlining of administrative permit- granting procedures

- RED II requires Member States to set up ‘**one stop shops**’ to coordinate the entire permit-granting process for new RES generation and relevant grid connection works. These must abide by a maximum permit-processing time of **two years** for regular projects and **one year** in case of installations with a capacity under 150 kW and in case of repowering (in the latter case, only six months if such requests have no significant negative environmental and social impacts), both extendable for an additional year in case of specific circumstances and notwithstanding environmental and judicial procedures.
- Meanwhile a simple notification procedure would apply to all new RES small-scale projects below 10.8kW. Each Member State may also choose to apply simple notification procedures to projects up to 50kW.

Guarantees of Origin (GoOs)

- RED II extends the scope of the GoOs scheme to **renewable gas** and introduces a time limit for the validity of a GoO (expiry at most 18 months after the production of the energy unit).
- It also introduces a mechanism to ensure that the market value of a GoO is taken into account when a producer receives financial support from a support scheme for the same production, so as to prevent producers from receiving both revenues from GoOs and financial support for the same unit of energy.
- Member States may opt not to issue GoOs to a producer that receives financial support from a support scheme.

RED II – Key Amendments to RED (continued)

Framework for self-consumers and energy communities

- The **principles** of renewable self-consumption and renewable energy communities **are enshrined** under RED II, which provides some guidelines for their realisation.
- In particular, in relation to renewable self-consumption, RED II provides that Member States must ensure that "**renewable self-consumers**" with small-scale installations of up to 30kW, individually or through aggregators, are entitled to: (i) carry out self-consumption and to sell, including through PPAs, their excess production without being burdened by disproportionate procedures and charges that are not cost-reflective; (ii) install and operate electricity storage systems combined with renewable electricity generating facilities without lability for any double charges; (iii) maintain their rights as final consumers; and (iv) receive a market-reflective remuneration for the power they feed into the grid.

Heating & cooling sector

- RED II seeks **to mainstream the participation** of RES in the heating and cooling sector (which accounts for 50% of total energy demand in Europe), in particular by requiring Member States to increase the share of RES supplied for heating and cooling **by 1.3% per annum**, with a lower target (1.1%) set for Member States which do not use waste heat or cold in their energy systems.
- Member States will also be obliged to **provide data** on the energy supplied for heating and cooling, as well as to carry out a regular assessment of their use of RES and waste heat/cold in heating and cooling. Moreover, RED II establishes guiding principles for district heating and cooling systems, including **the right of consumers to disconnect from inefficient systems**.

RED II – Key Provisions (continued)

Transport sector

- RED II seeks to **mainstream the participation of RES in the transport sector**, which currently relies overwhelmingly (94%) on oil-based products and sets a **binding EU minimum target of 14%**, calculated as a proportion of fuel supplies on the EU market.
- The share of **conventional biofuels** on road and rail is **capped at 7%** EU-wide, with additional caps on Member States where the share is already below this level. **Advanced biofuels** should rise from low levels to a minimum share of **3.5%** by 2030.
- Use of biofuels that rely on high risk of indirect land-use-change crops (including palm oil) will be capped at 2019 levels in each Member State and **gradually phased out** from 2023 until 2030. The Commission will adopt a delegated act in 2019 on certification schemes for biofuels, and apply these criteria to RES calculations over the ensuing decade.

Use of bioenergy

- RED II contains **detailed provisions to improve the sustainability and GHG emissions-saving criteria for biofuels, bioliquids and biomass**. These criteria are aligned with the obligations of the EU and its Member States as signatories to the UNFCCC Paris Climate Change Agreement, and would reinforce the Commission's legislative proposal on land use, land use change and forestry (LULUCF) by introducing a new sustainability criterion for forest biomass.

RED II – Key Amendments to RED (continued)

- New biomass installations for electricity, heating and cooling will need to reduce GHG emissions by 70% from 2021, increasing to 80% reductions from 2026.
- RED II explicitly recognises that gas can be produced from renewable sources, whether of biological origin ('biogas') or non-biological origin (e.g. hydrogen fuel). Such forms of **renewable gas** are considered a renewable source of energy under RED II, so they will contribute towards calculating the share of RES in final energy consumption, as well as be eligible for EU schemes, such as the Guarantees of Origin scheme.

Transposition

- EU Member States must transpose the provisions of RED II into their national legislation by **30 June 2021**.
- However, certain actions will need to be taken in the near- to medium-term by the Commission. For instance, the Commission shall review the overall 32% EU target by 2023, as well as the 14% sub-target for transport, and may propose to increase, but not decrease, the targets. In 2026, the Commission must propose a regulatory framework for the promotion of renewable energy for the post-2030 period.

Relevance for the South East Europe (SEE)

The Region's Renewable Potential

- Study published by the **International Renewable Energy Agency (IRENA)** in January 2017 titled "*Cost - Competitive Renewable Power Generation: Potential across South East Europe".*
- **Main Findings**
  - The region's power sector comprises over 118 GW of installed capacity, out of which renewables accounted for **36 GW** in 2015. Hydropower accounts for 75% of this renewable capacity, although most of it was constructed several decades ago.
  - Bulgaria, Romania and Ukraine are the only countries in the region that already have significant solar PV and wind energy capacity, with this totalling some 7.8 GW in 2015.
  - SEE possesses **vast technical renewable energy potential** – equal to some **740 GW**. The region's wind energy (532 GW) and solar PV (120 GW) potential is **largely untapped**.
  - **126.9 GW** of the overall renewable energy potential could be implemented in a cost-competitive way **today**.
  - **Wind** energy is the **most abundant resource** in the region, with an overall technical potential amounting to over 532 GW. This compares to only 4.9 GW installed in the region at the end of 2015. Over 18% of this potential, or **98 GW**, could be additionally **deployed today** in a cost-effective manner.
  - An **additional** cost-competitive potential of **290 GW** is possible above if low-cost capital becomes available.

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Relevance for the South East Europe (SEE) (continued)

- As for the **projections** for 2030 and 2050, with the expected further decline in technology costs, as well as the expected lower cost of capital in the mid-to long-term, the cost-competitive wind and solar PV potential of the region is expected to **further grow to more than 650 GW by 2030**. This means that almost the entire technical potential of those technologies will be cost-effectively exploitable.
- Renewable energy **targets** for 2020 have been introduced throughout the SEE, and **National Renewable Energy Action Plans** (NREAPs) have been developed to achieve the required penetration level per the targets set. Most of these plans, however, face challenges in implementation unless the current policy and regulatory frameworks are strengthened. In addition, **in line with recent developments in the European Union, new commitments are expected up to 2030**.
- For the purpose of IRENA's report, SEE is deemed to include: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo*, Montenegro, Republic of Moldova, Romania, Serbia, Slovenia, the former Yugoslav Republic of Macedonia and Ukraine – all of them are either EU Member States (Bulgaria, Croatia, Romania and Slovenia) or Energy Community Contracting Parties (Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, Republic of Moldova, Serbia, the former Yugoslav Republic of Macedonia and Ukraine).

Energy Community

- Key objective of the Energy Community is to extend the EU internal energy market rules and principles to countries in South East Europe, the Black Sea region and beyond on the basis of a legally binding framework (acquis).

The designation Kosovo* is without prejudice to positions on status and in line with the United Nations Security Council Resolution 1244 (1999).

Relevance for the South East Europe (SEE) (continued)

- Contracting Parties were required to implement RED by 1 January 2014 while RED II implementation is similarly expected under the acquis.
- **Recent examples of progress made in Energy Community countries:**
  - In May 2018, **FYROM** transposed RED into its national legislation. The law also includes requirements for a competitive bidding process to grant support to renewable energy producers as well as market integration of renewables in compliance with the EEAG.
  - In July 2018, the Republic of **Moldova** adopted a market-based support scheme in compliance with the EEAG introducing auctions to grant support in the form of a premium to new renewable energy producers. The first auction round is expected to take place in 2019.
  - **Albania** launched its first auction for 50 MWp solar PV capacity in August 2018.
  - **Montenegro** is in the process of reforming its 2015 Energy Law to fulfil all requirements of RED and the EEAG. The reform is expected to have been completed within this year.
  - **Ukraine** is in the process of reforming its support schemes, which are currently based on feed-in tariffs (so–called green tariffs), in order to introduce auctions to grant support in the form of a premium to new renewable energy producers.
- It is apparent that the improvements in the regulatory framework introduced at EU level with the “Clean Energy Package” combined with the great renewable potential of the region will result in an unprecedented wave of new investment in the RES sector within the years to come.

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