German Energy Day
Düsseldorf, 21.05.2014

European Federation of Energy Traders

EEG reform – too little, too late. The traders' view

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Energiewende in Germany

The need to revise the Renewable Energy Act (EEG)

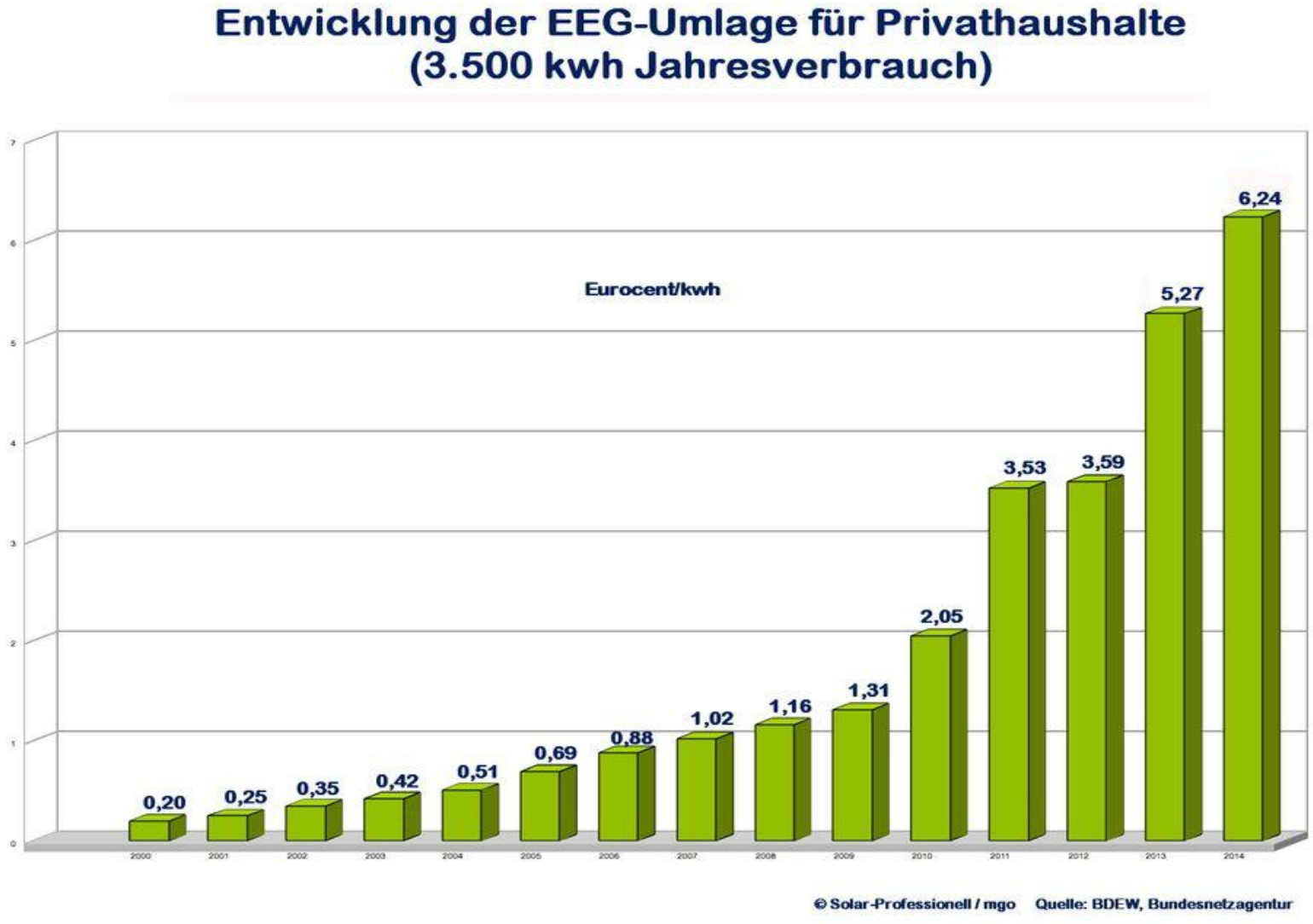
- increased EEG levy up to 6,24 cent/kWh in 2014
- total cost of renewable subsidies in 2013 was € 16 billion
- current subsidy regime burdens households and industry, not only the energy-intensive

EFET‘s role and position

- welcomes the planned introduction of **auctions** to determine the amount for RES from 2017
- A **technologically neutral auction** is preferable (in the context of a fixed market premium)
- Important to take into account **international experience** in the design of auctions

→ EFET wants to play an active role in the upcoming discussions about the design of the tender

Increase of EEG levy



Main aspects of the EEG from a traders point

Key elements of cabinet draft		EFET Assessment
Floating market premium (general rule)		Fixed market premium is more efficient
Technology-specific approach		Technology neutrality essential for efficiency of the support system
Obligatory direct marketing		Suitable instrument for market integration of RES
Planned pilot projects for open land PV systems in order to determine the amount of subsidies		Basically important in terms of market information but implementation involves risks
Elimination of self-consumption privilege for new plants		In principle necessary, otherwise shrink of basis for reallocating the levy
Exceptions		Weakening of positive aspects of EEG reform

Major challenges for EEG-Reform

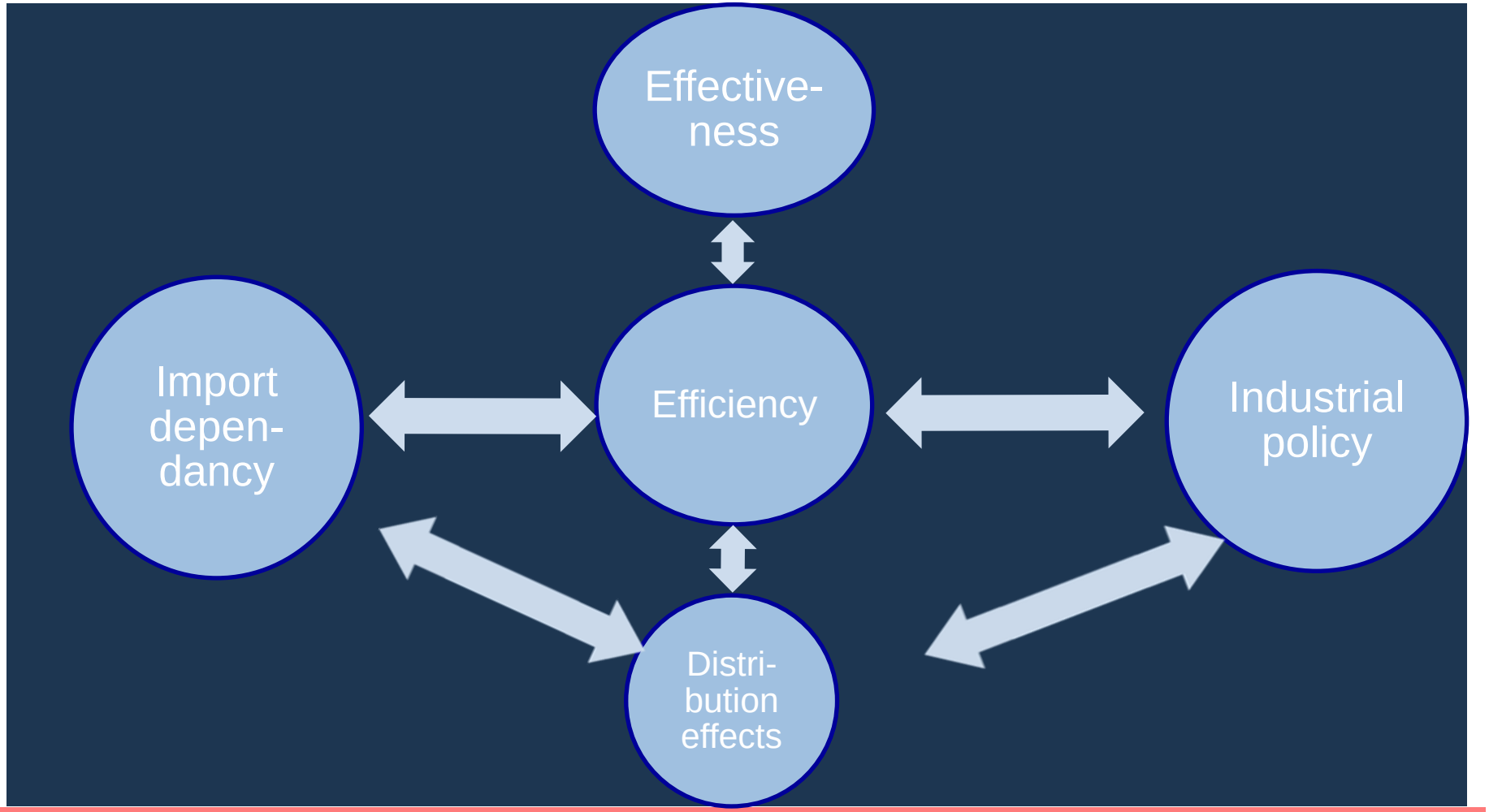
EFET identifies three major questions:

Why is a technology-open tender preferable and how it might look?

What are the other essential elements for an auction model?

What should be considered in the implementation of the pilot project?

Conflicts in the promotion of RES

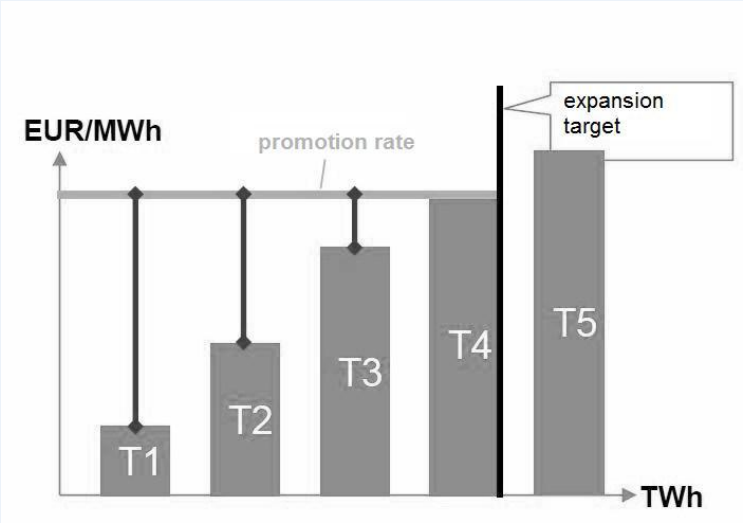


The conflict between cost efficiency and equality of distribution often leads to technology differentiation

Distributive effects as reason for technology differentiation

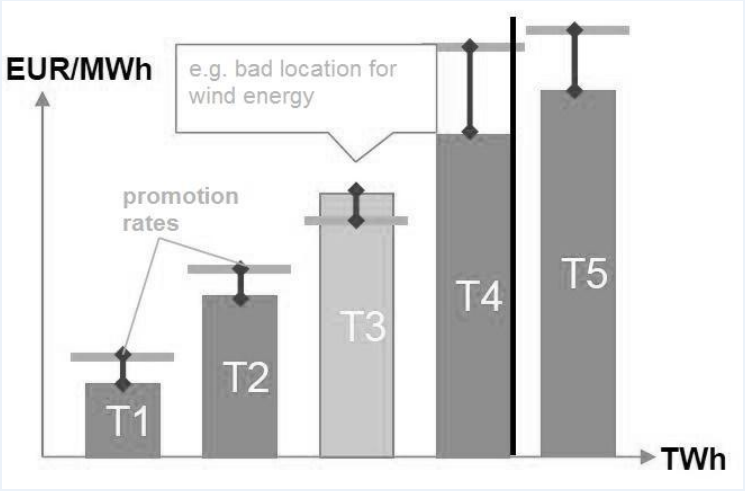
Technology neutrality

- All plants get the same prize. Thus efficient plants would yield the biggest profit
- Criticism that this would lead to higher profits for companies and increase the EEG levy



Technology differentiation

- Technology-specific funding limits the profits of investors in order to ideally reduce the cost for consumers
- **BUT**: incentive to focus on expensive technologies, hence it can be even more expensive for costumers



Source: Frontier Economics

Technologically neutral direct marketing

	Efficiency		Effectiveness
Major deficits in RES regime	Lack of incentives for market and system integration	Lack of incentives for market and system integration	No systematic management of Expansionary path (except PV)
Starting points for improvement	Obligatory direct marketing	Technology competition (due to technologically neutral promotion)	Shift from control of prices to control of volume
	Privileging RES over conventional power plants limits operability of energy markets - Includes obligatory marketing/ balancing group management	Learning curve effects / industry leadership no longer justify differentiation - Hence focusing on efficiency	Opportunity to automatically take countermeasures on short notice in case of the occurrence of disincentives

Comparing models of direct marketing

	efficiency	effectiveness	distributive effects	political feasibility	risk distribution
fixed market premium	YES	YES	?	YES	Investor/ System
variable market premium	NO	YES	?	YES	System
quota	YES	YES	?	NO	Investor

- Fixed market premium appears to be most suitable
- Variable market premium lacks incentive for forward marketing
- Quota focuses on volume targets but is not politically feasible
- Fixed market premium as compromise for market integration (furthermore auction procedures allow the control of volume)

Auction procedure

Basic advantage of auction procedures	• auctions are fast, transparent and non-discriminatory • auctions provide economically efficient market outcomes
Conditions	• adequate bidding competition • existing uncertainty on both sides of the auction procedure (auctioneer: state/ bidders: energy producers)
Fulfilled conditions in Germany	• uncertainty on cost for investments and future revenues in direct marketing • bidding competition is expectable due to large amount of potential investors • Bilateral negotiations are legally not possible

Advantages of auction procedures over administrative specification

Control of volume	Auction directly determines the volume 
Reducing information asymmetries	Uncertainties and thereby risk for all market participants will be reduced 
Takes advantage of market information	For an administrative specification the state needs predictions on funding duration for all technologies and locations 
Transparency	Bidding process and competition reduce probability of excessive promotion 

Challenges for technologically neutral auctions

Technologies

The technologies for RES are different in

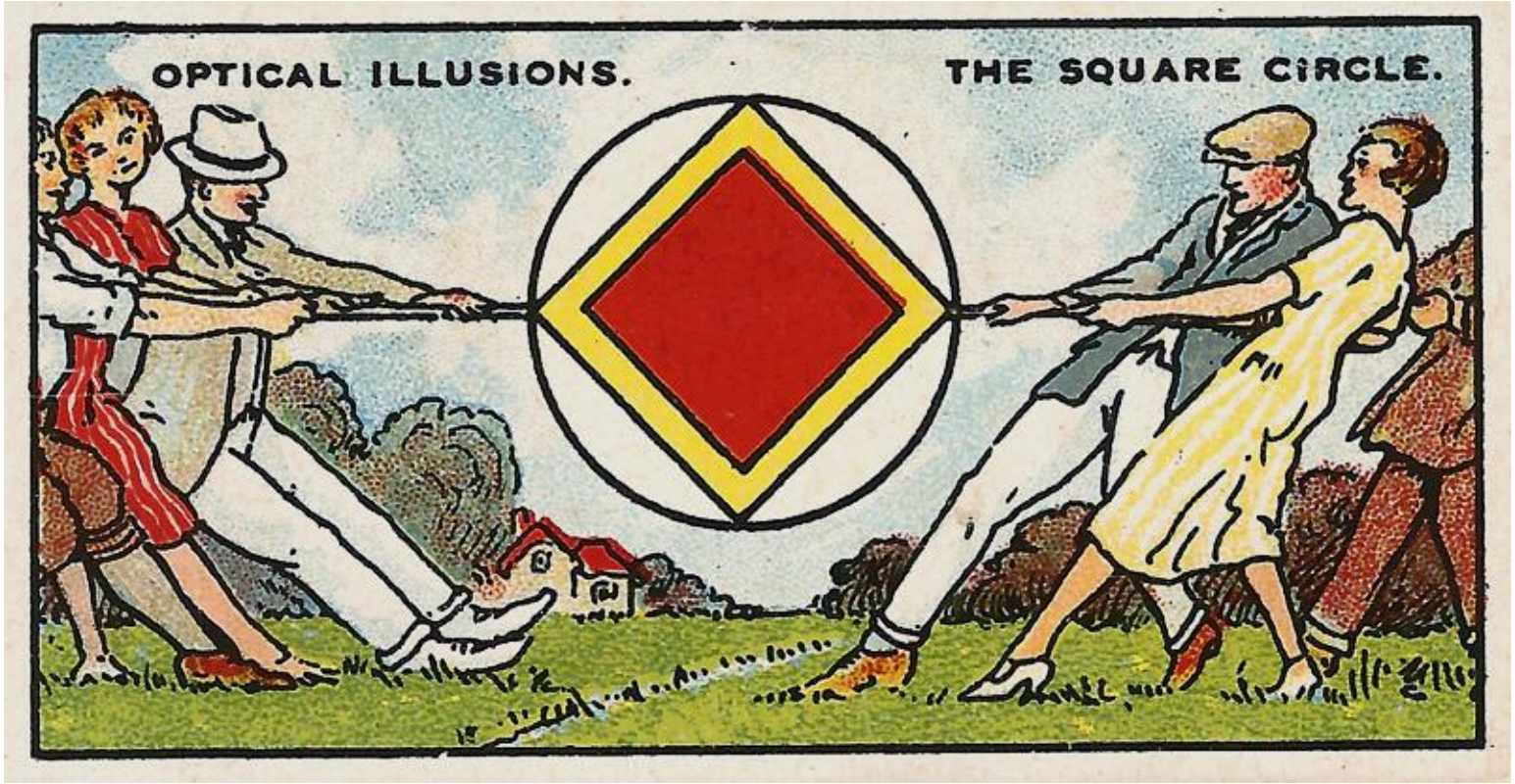
- lead time
- sufficient project size
- cost structures
- uncertainty

Investors

- Potential RES-investors are individuals, electricity companies, fond/banks etc.
- Large differences in terms of funding structure, availability of locations, relative magnitude

Challenge: technologically neutral „one size fits all“ auction-design

Thank you very much for listening!



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