

Highlights CT2

RES Electricity

3rd CA-RES IV Plenary Meeting

9th-10th November 2022

Session 8: Impacts of the revenue cap on Power Purchase Agreements

The Council Regulation (EU) 2022/1854 of 6 October 2022 on an emergency intervention to address high energy prices sets out an approach to recover excess revenues from generators with lower marginal costs (“inframarginal technologies”), such as renewables, waste, nuclear, lignite, petroleum products and peat. These electricity generators have made unexpectedly large financial gains over the past months, without their operational costs increasing. They are paid windfall revenues well in excess of their 'levelised cost of energy' (LCOE).

The regulation sets an ex-post cap on market revenues of 180 Euro per MWh of electricity produced. The cap on market revenues should apply to realised market revenues only, regardless of the contractual form in which the trade of electricity may take place. The revenue cap has been set such that it includes a reasonable margin compared to the current levelised cost of energy (LCOE) of most RES electricity generation technologies.

Power purchase agreements could play an important role in achieving renewable expansion objectives by 2030, potentially reducing the amount of public support needed. Thus, investment signals for PPAs need to be preserved. The proposed application of the revenue cap would in principle preserve incentives to conclude long-term power purchase agreements (PPA), given that the revenue cap does not interfere with the formation of prices. However, the announcement of the revenue cap has led to uncertainty in the PPA market due to: a) the possible differences in revenue caps across MS, b) the possible extension of the duration of the cap revenue measure beyond 30.6.2023 c) the fact that generation assets partially contracted through PPAs and partially selling on the spot market may be affected, even if the cap does not affect the PPA as such and d) the fact that Member States determine whether they apply the cap when the settlement of the exchange of electricity takes place, or thereafter.

This session examined the potential impacts of the mandatory cap on market revenues (Council Regulation (EU) 2022/1854) on renewables power purchase agreements. Several aspects were discussed. Among others:

1. Does the cap affect the closing of PPA deals?
2. Does the application of the cap affect the revenues of PPA sellers and/or buyers?
3. Does the application of the revenue cap affect investment signals for future renewable electricity projects?

4. Does the revenue cap offers sufficient margin to renewable electricity technologies such as wind power and solar PV to offer PPA prices well below the current electricity prices to off-takers?
5. How does a project developer chooses whether he/she applies to a support scheme, enters into a PPA or sells on the spot market or chooses to combine these options, if allowed?

Session 10: Impact of the Ukraine war on support schemes for renewable electricity

In this session, the impacts of the high electricity prices on the development of support schemes for renewable electricity generation in the Member States were discussed. In particular, the following questions were examined:

- Has the number of applications for support of new renewable generation capacities and the level of requested support changed?
- Are there any modifications planned to the existing support schemes to enable a faster deployment to deal with the energy price crisis?
- Have the priorities for the development of renewable electricity generation changed?

The results of the questionnaire show that MS states are experiencing some changes in the support schemes and the number of requests for support. Several MS experienced an increase in the number of requests for support while other experienced a decline in specific technologies. In particular, the requests for solar PV, offshore wind (where available) and biogas have increased substantially. In some cases, however, MS have seen a reduction in the number of requests in specific technologies such as biomass electricity generation.

The main current obstacles for RES-e project development appear to be availability of a qualified workforce, availability/delivery times of materials and components and grid connection issues. Actions being considered or already taken by MS to accelerate deployment of RES electricity projects as a response to the energy crisis include an increase in the RES-e deployment targets, increase in the volumes of tenders, process adjustments and information campaigns, as well as lifting some requirements for project developers.

During the session, DG ENER briefly introduced the Guidelines on State aid for climate, environmental protection and energy 2022 (CEEAG) and section 2.5 of the Temporary Crisis Framework (TCF). The TCF includes provisions for the rollout of renewable energy, storage, and renewable heat. Section 2.5 of the TCF, which was recently updated, allows MS to set up schemes to grant aid for RES electricity, RES heat and renewable gases.

Two Member States presented the impacts of high energy prices on their RES electricity support schemes. In one of the cases, plants are leaving the feed-in-tariff support scheme to profit from high electricity prices. The feed-in tariff system allows plant operators to leave the subsidy system temporarily. If they choose to return, they will have to stay in the support system for at least 12 months. The subsidy contract conditions when these plant operators return are the same as before they leave the system.

In the other case, the latest auctions have been undersubscribed. In particular, biomass projects have not applied for support. Apparently, this is because the feedstock is becoming more expensive or is not available.

In addition, some examples of how Member States are implementing Art. 6.3 of the RED II were presented. According to Art. 6(3), Member States have to publish a long-term schedule anticipating the expected allocation of support.