



RENEWABLE
ELECTRICITY MARKET
MONITORING
IN THE COUNTRIES
OF THE DANUBE REGION

Regional Centre for Energy Policy Research

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EXECUTIVE SUMMARY

The 14 countries of the Danube Region provide a complex picture of RES-E development. The past five years of 2008-2012 have seen **tumultuous changes in the region's policy environment**. This, along with the general economic slowdown, has proven to be detrimental for new RES-E investment in some of the countries, while others have yielded unexpectedly high growth rates in the sector.

Despite the continued importance of hydro power to the portfolio of renewable electricity in the majority of the countries, **significant investments have been made into new RES-E technologies**. Photovoltaic appliances have captured surprisingly large shares of new RES-E thanks to the rapid spread and acquisition of technology and slow reactions of policy makers.

Our report highlights the politically sensitive issue of the **burden on electricity end-users caused by RES-E support policies in the Danube Region**. After researching and calculating the burden of support relative to income we identified three groups of countries. In modestly supporting or late starting countries the RES-E support budgets are less than 0.1% of the GDP (Bosnia, Croatia, Moldova, Serbia). In the second group the weight of the national RES-E support budgets are between 0.1% and 0.2% of the GDP, and it contains countries with growing RES-E sector (Austria, Romania, Slovenia, Ukraine) as well as others with a stagnating one (Hungary). In the third group, the GDP related support budgets are greater than in the lowest group by a factor of 10 to 40, being as high as 0.4% to 0.9% of the GDP. The countries in this group are clearly determined to increase RES-E in their portfolio (Bulgaria, Czech Republic, Germany, Slovakia) but differ in the sustainability of their support policies.

Sustainability of support is a major issue in the region. Our report has not only accounted for abrupt changes in the regulation and retroactive measures taken by policy makers in some countries but we identified major risk factors to consider by others. For example, Ukraine is one of the most ambitious newcomers in the group of heavy supporters of RES-E. Its strategy to offer exceptionally high support rates per unit of renewable electricity might be justified with policy targets and entry barriers. But countries with a similar strategy must **avoid cementing support rates in national legislation**. If current pledges are too difficult to modify over time, the country runs the risk of inviting an excessive number of new RES-E investments that will peak at an unsustainably high magnitude, heavily inflating its support budget and making its electricity consumers pay RES-E surcharges that will become politically unacceptable.

The current report is full of new data that details the sector's position in the Danube Region. It is interesting to note that **most of the countries are well on track to meet their RES-E targets in 2020** – at least all but two have completed their objectives for 2012. The two countries (Romania and Hungary) provide useful examples by showing that **accountability and stability are key to successful regulation of RES-E support instruments**. Hungary, for example, was on the fast track to grow its renewable electricity production for many years. Meanwhile, policy debates led to a decision to gradually phase out support for solid biomass co-firing. The argument follows that high efficiency biomass and other new technologies will quickly make up for the gap. As biomass co-firing quotas have been rapidly reduced, policy

has been insufficiently slow in replacing the outdated support regulations with new ones. The long anticipated and oft promoted new RES-E support regulation has not emerged in the past four years. It comes as no surprise then that overall RES-E production has declined and investments have halted in Hungary. Romania had been waiting for the EU to approve the reform of its tradable green certificate (TGC) system, which had an impact on their RES-E development. But the final approved system had to be significantly modified this year, which might discourage further investments in the country.

Based on the underlying survey, the current monitoring report concludes that with regard to grid connection and enforcement costs **the majority of the observed countries apply cost sharing regimes that we deemed “non-shallow”**. The label draws attention to the fact that, contrary to most European countries, Danube Region countries shun the so-called shallow grid-cost sharing regime in which RES-E projects are required to pay only the cost of their direct connection to the nearest grid facility. With only a few exceptions (Bulgaria, Serbia, Moldova, Germany), Danube countries make RES-E projects also pay for the indirect system development costs claimed to emerge as a consequence of their connection to the grid. It is nonsensical in countries with high support rates: they pay a lot for renewable electricity but a significant amount is absorbed by grid operators, making it very hard to later reduce support rates.

We find that the overwhelming majority of **RES-E policymakers in the Danube Region still prefer to use feed-in tariffs (FIT) as their primary instrument choice**. There are only four countries which apply a coexisting feed-in premium (FIP) scheme (Germany, Czech Republic, Slovenia, Bosnia) and only one single country to run a tradable green certificate system (Romania). On one hand, it is explicable by the wide-spread initial reasoning: renewable electricity is an infant industry, so if new RES-E investments are desired a country must keep a FIT scheme running for several years. On the other hand, RES-E technologies have moved far down their experience curves and many are market ready by now, producing electricity at competitive costs, and making it pointless to provide them with special treatment. It is time to allow for the market to play a larger role, to the detriment of state protection, because consumers deserve renewable electricity as cheaply as possible. This is a typical reformist argument, which has just recently been reinforced by a real heavy-weight supporter: the European Commission (EC).

In the run-up to finalizing this monitoring report, the EC published its best practice guidance on the design of renewables support scheme,¹ in which it clearly takes sides in the RES-E policy reform debate. Its simple advice is the following: **phase out feed in tariffs, replace them with feed-in premiums**. FITs are advised only in a very limited scope: for small scale activities with pre-set capacity caps. FIPs are advised to help expose RES-E producers to more price risks and market flexibility. In the light of this, it is worthy of note that the **Danube Region countries may be on the brink of major policy reforms to switch from FIT regimes to FIP schemes**.

¹ SWD(2013) 439 final COMMISSION STAFF WORKING DOCUMENT European Commission guidance for the design of renewables support schemes; Accompanying the document: Communication from the Commission, Delivering the internal market in electricity and making the most of public intervention