

# Renewable PPAs

Observed challenges in the ETS State Aid guidelines and its implementation in Germany

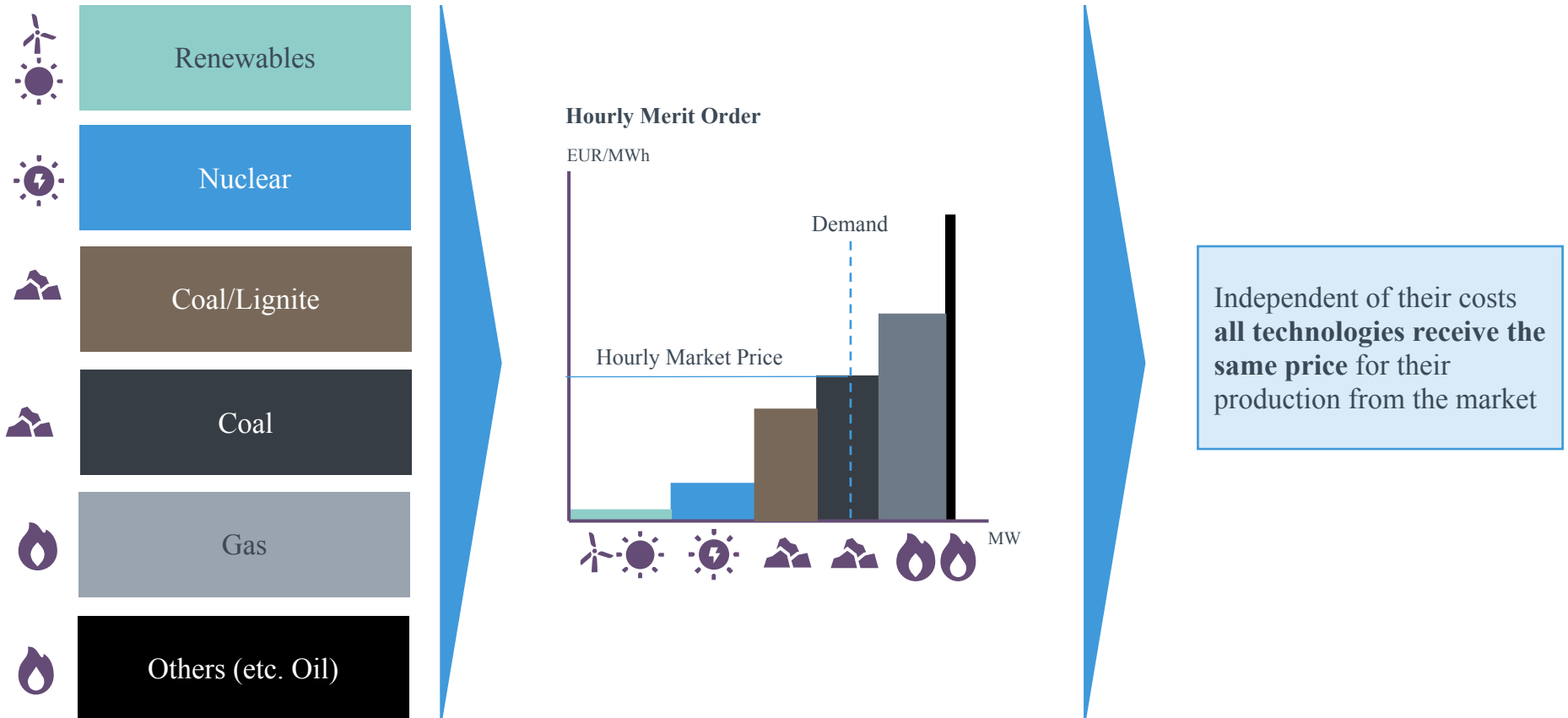
ERCST seminar 7 May

The Orsted logo, featuring a stylized white 'O' with a vertical line through it, followed by the word 'rsted' in a lowercase, sans-serif font.

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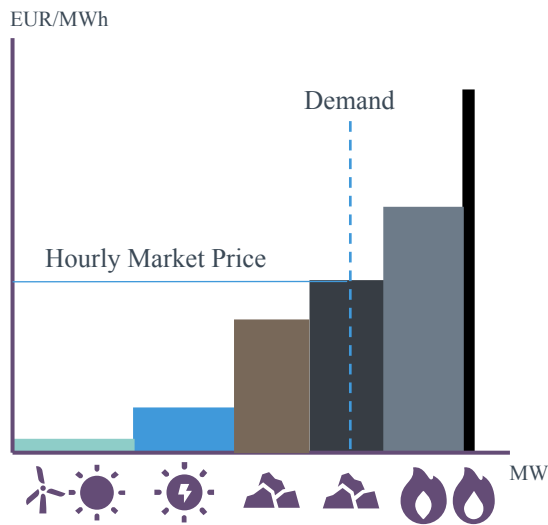
# Electricity market design in Europe ensures a non-discriminatory environment: Each MWh at a given time receives the same price



# The same principle should hold for long term supply contracts independent from its technology

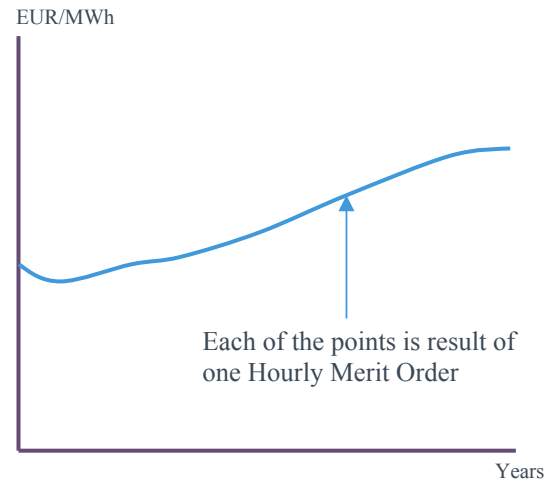
Short term marginal costs are the foundation for long term market views

## Hourly Merit Order



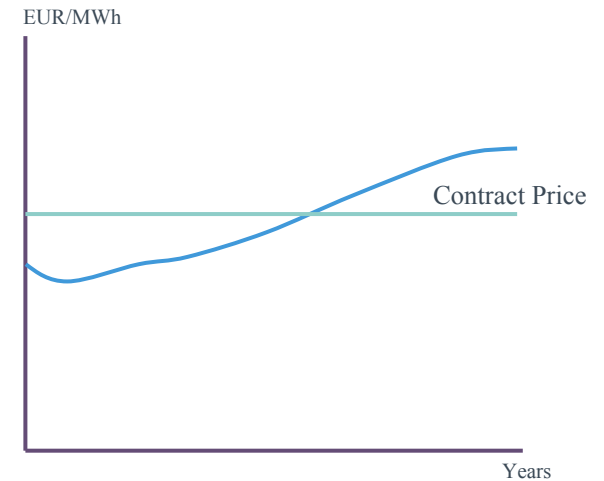
Market price forecasts are the basis for pricing of long term supply contracts

## Long Term Market Price Forecast



The long term forecast is then converted into a pricing structure

## Long term supply contract price



Market reflective pricing of supply contracts achieves a non-discriminatory treatment of different technologies.

# State aid guidelines allow compensation for “indirect CO2 costs” – Side effect: In Germany Renewable PPAs aren’t attractive

State aid guidelines<sup>1</sup> state that: *“In case of **electricity supply contracts that do not include any CO2 costs, no State aid will be granted**”*

In Germany compensation is paid in line with this guideline. But a supply contract that include CO2 costs is interpreted as a contract with at least some electricity generation using fossil fuels<sup>2</sup>

**Industrials in receipt of state aid have an incentive to source grey power.**



Wind PPA

Volumes sourced under a renewable PPA are currently **excluded from state aid**



Corporate Offtaker



Grey Power

Volumes sourced under a PPA with conventional generation **are eligible for state aid**



Corporate Offtaker



<sup>1</sup> Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme post-2012 - [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012XC0605\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012XC0605(01)&from=EN)

<sup>2</sup> Chapter 3.12.1 of the Guidelines for application for Power Price Compensation [https://www.strompreiskompensation.de/SPK/SharedDocs/downloads/DE/handbuch\\_leitfaeden/SPK-Leitfaden.pdf?\\_\\_blob=publicationFile&v=8](https://www.strompreiskompensation.de/SPK/SharedDocs/downloads/DE/handbuch_leitfaeden/SPK-Leitfaden.pdf?__blob=publicationFile&v=8)

## Suggestion to DG COMP for revised Guidelines

- Point 11 of the state-aid guidelines and the term carbon cost<sup>1</sup> should be clarified so that Member States do not implement the guidelines in a manner that works against European objectives of a green and cost-competitive Europe, like what is currently the case in Germany.
- Implementation in France, Finland and Norway are examples of how point 11 can be implemented without distorting the market.
- Broadly speaking they check whether the electricity in question could have been sold on the market. If that is the case, it is concluded that the supply contract include carbon costs.
- The revised guidelines could therefore clarify in new point 11 that supply contracts, with electricity that could have been sold on the wholesale market, include carbon costs.