Response to EU public consultation on RES permit granting processes & Power Purchase Agreements (PPAs)

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EUROPEAN ALUMINIUM

Executive Summary

In its proposal for a Revised Renewable Energy Directive (RED), the Commission sets ambitious goals for the roll out of renewable energy (RES) in the Union: the share of RES in the global grid mix should be of 40% in 2030 and doubled in 2040 compared to 2020 levels. This is particularly important for the European aluminium value chain: as on average electricity represents 40% of our production costs, it is in our best interest that access to affordable renewable and decarbonised electricity is facilitated and uniform in Europe. We therefore welcome the Commission's initiative to publish guidelines to Member States on best practices and administrative barriers in permit granting processes and long-term RES contracts.

RES permitting should be encouraged at European level via:

- **A more predictable and stable regulatory framework**. A uniform definition of a minimum set of clear and general rules should be established.
- **Guarantee of shorter timeframe for fulfilling of permitting requirements.** Currently, fulfilling of permitting requirements can take up to 8 years.
- **An optimization of the utilization of the grid.** In some countries, the grid is overloaded. In others, too many projects are submitted to the administration, which slows down the administrative approval process, and thus generates delays and slows down the ramp up of new RES capacity.

PPAs must be encouraged at European scale **via a common framework for all energy purchasers**. This should include:

- **Mechanisms to deal with shaping/firming costs,** which are caused by the intermittent nature of wind/solar generation and constitute of significant additional costs for electro-intensive consumers. The 'Green Pool' concept[1] is an effective solution to overcome these costs. Under such type of scheme, electricity produced by RES units would be 'pooled' together by an aggregator. The aggregator would undertake all shaping risks and supply the consumer with baseload power. As a result of production & consumption aggregation, and a competitive tendering process for the assignment of the aggregator, shaping costs would be reduced considerably, whereas partial state support would further the rapid growth of this market.
- **Full compensation of the indirect costs of the EU ETS**: Due to marginal pricing in European electricity markets, a consumer who signs a PPA for renewables will still face carbon costs. At the current carbon price (80 EUR/ton), this will represent around 50 EUR/MWh (ETS price * average of the pass-through factors from the ETS Guidelines[2] – 0.63). Without adequate compensation, electro intensive industries cannot be competitive on the global market.
- **Long-term cross-border transmission rights:** Today it is not possible to secure cross-border transmission capacity for a period longer than one year. If a company signs a cross-border PPA of 10 to 15 years, only the first year will provide visibility on the import costs of electricity. Longer-term mechanisms are therefore required to facilitate physical cross-border PPAs.
- **Reorganization of administrative processes:** The development of RES and PPAs in Europe is handicapped by licensing procedures that can take up to 8 years for RES projects, limiting the rate at which new RES capacities enter the system. The limitations of our current electricity grids also constitute significant barriers to new RES investments. Prioritization of RES projects should be reorganized, and the current energy infrastructure should be better used and expanded.

[1] Please find here the detailed green pool proposal by ENERVIS, March 2021
[2] See Annex II & III EU Communication supplementing the Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post-2021, November 2021

- **Faster permitting procedures for renewable projects.**
- **Member State or European Investment Bank (EIB) financial guarantee for long-term PPAs:** this idea has been implemented in Norway and was also more recently applied by the Spanish government[3]. It would consist of a financial backing provided by either the EIB or a Member State in order to facilitate bilateral green energy supply contracts. The EIB should also develop EU-wide instruments to enable private banks to finance local renewable solutions so as to boost the production of new renewable energy capacity.

Background

In our sector, when electricity becomes too expensive, production relocates. This is exacerbated by the fact that we are a price-taker sector. The price of aluminium is set at global level at the London Metal exchange, which means that it is impossible for European producers to pass on any unilateral regulatory costs (i.e. electricity price increases caused by European regulation, which do not exist elsewhere in the world) to customers without losing market share. For example, due to the marginal pricing system applied in European electricity markets, indirect EU ETS costs are embedded in the wholesale electricity price, and therefore they are also reflected in the 'strike price' agreed upon when signing RES PPAs. Limiting the impact of these regulatory costs on electro-intensive consumers is a key pre-requisite for aluminium producers to be able to sign RES PPAs. In the case of indirect EU ETS costs, the continued possibility of indirect cost compensation under the ETS State Aid Guidelines for the entirety of the fourth ETS trading period (2021-2030) is crucial.

PPAs represent a key stability instrument for the aluminium industry, as they offer predictability and long-term certainty for energy-intensive consumers. This was also a crucial conclusion of the study commissioned by DG ENERGY back in 2019 on the "*Competitiveness of corporate sourcing of Renewable Energy*[4]*".* It included two case studies[5] of European aluminum companies, with the following important policy recommendations:

- Member States should introduce public policies mitigating electricity price risks by stabilizing the regulatory components affecting the price (these include for example network costs, surcharges for RES support schemes, other non-recoverable taxes) and the indirect EU ETS costs which are passed on by electricity generators and contribute to inflating the market price for electricity.
- As with the revised ETS Guidelines for the fourth trading period (2021-2030), enabling compensation for indirect EU ETS costs, the EU should also draft multiannual guidelines for RES support schemes under the revised State Aid Guidelines for Climate, Energy and Environment (CEEAG); Long-term EU guidance should be accompanied by a stable budgetary and regulatory framework at the national level, securing compensation for energy-intensive players.
- A revision of the current RES support schemes and the introduction of market-based auction mechanisms reflecting the reduction in renewable generation costs and making it more interesting for generators to search for corporate buyers as an alternative to public support.
- Moving forwards, as RES support schemes are phased out, PPAs with electro-intensive consumers (such as aluminium producers) can play a crucial role in replacing the long-term revenue stability currently provided by support schemes. Given that electricity accounts for around 40% of the total cost of producing aluminium, long-term visibility with regard to this cost is crucial. Long-term PPAs can be mutually beneficial for both the producer and consumer, and must therefore be supported by identifying and eliminating the various remaining barriers.

[3] See here Euractive Article « Spain calls on EU to endorse renewable energy contracts for industry », 14 February 2022
[4] See CEPs Study for DG ENER "*Competitiveness of corporate sourcing of Renewable Energy",* June 2019
[5] Case studies are accessible here

RES Permitting

If we are to rely on RES to satisfy our energy demand, significant levels of additional RES capacity need to be added to the European grid. However, RES development still faces significant financial and regulatory barriers in Europe.

RES permitting needs a more predictable and stable regulatory framework, and a uniform definition of a minimum set of clear and generic rules on the permit granting process should be established. The Renewable Energy Directive (RED) provides for several measures which would simplify permit granting. Maximum durations of the administrative procedures, one-stop-shop provision or simple notification procedures would be efficient in reducing the bottlenecks linked to RES permitting. The RED should also introduce an obligation to keep permit processes uninterrupted. The administrative obligations in RED should be strengthened, and good practice exchanges should be encouraged. There are concerns linked with planning, analysis and authorization of RES projects.

Moreover, **consumers should be guaranteed a shorter timeframe for fulfilling of permitting requirements**, dialogue between the different parties involved should be promoted and when several authorizations or permits are needed for the same project, the administrative process should go in parallel. A clear planning framework should be established: eligible areas for installation should be clearly indicated in planning documents, and buyers and generators should be able to contract directly.

Congestion of the grid can also be an issue in RES permitting. Grids should therefore be better used and expanded where needed. Some countries simply do not have enough space to build more RES installations. In others, too many projects are submitted to the administration, which slows down the administrative permitting process. The priorities in permit granting should be reviewed accordingly (e.g., prioritize projects most likely to be built in short timeframes, easier access to RES PPAs for efficient projects). Currently, priority is often given to energy community projects, which can lead to projects being dressed up as energy community projects.

Power Purchase Agreements (PPA)

The 2018 RED, with a transposition deadline of 30 June 2021, already introduced new requirements on permit application and granting procedures for all renewable projects and required the Member States to identify and remove unjustified barriers to long-term renewable PPAs. However, PPAs are still mostly signed in the Nordics and are not available in the rest of Europe because of regulatory and financial limitations.

Regulatory Barriers

The main obstacle for entering a long term PPA are the uncertainties on costs and framework. Energy-intensive consumers need to be insured they will be compensated for their indirect costs. Due to the marginal pricing system applied in European electricity markets, a consumer who signs a PPA with renewables will still face carbon costs. And at 80 Euro a ton of CO2, this equals 50 Euro/MWh of the electricity price (current ETS price: 80 EUR * average CO2 pass through factor – 0.63). Without adequate compensation, electro-intensive industries cannot be competitive on the global market. Therefore, certainty on the possibility for aluminium smelters to access national indirect carbon cost compensation schemes is a key pre-condition for the ability to enter into long-term PPAs[6]. Along these lines, companies that purchase electricity via RES PPAs should also be entitled to compensation for indirect EU ETS costs.

[6] The proposed schemes by France and Slovenia, including updated market-based CO2 pass-through factors, are still awaiting for DG COMPETITON's greenlight

Secondly, **transborder cooperation and exchanges should be improved**. RES installations are often far from installations using the energy which slows investments in RES. Development of cross-border interconnection should also be supported, as not all areas benefit from the same amount of renewable capacity. Insufficient market coupling and the limited capacity for cross-border interconnections should be reduced, while easing the current rules for auctioning interconnection capacity to promote physical PPAs and remove barriers to renewable energy storage. Moreover, today, it is not possible to secure cross-border transmission capacity for a period longer than one year. TSOs should be urged to sell longer transmission rights so that they are in line with the needs of companies for long-term hedging of energy via PPAs.

Finally, **consumers still face several barriers in signing PPAs. The EU must provide for a common framework for all energy purchasers.** Regulatory barriers in Member States still include: an inability to contract directly between buyers and generators (which is not allowed in some Member States), national regulations limiting who can be an off-taker, limitation on the geographical location of contract sourcing, and the inability to transfer guarantees of origin to off-takers (which should be relevant for both subsidised and non-subsidised projects).

Financial Barriers

Consumers also face financial barriers when concluding PPAs: they are still faced with significant shaping and firming costs that result from the intermittent nature of renewable electricity generation.

The Commission should encourage mechanisms to deal with shaping/firming costs, which constitute a significant financial barrier to RES PPAs for electro-intensive consumers. The 'Green Pool' concept[7] could be efficient: electricity produced by RES units would be 'pooled' together by an aggregator. The aggregator would undertake all shaping risks and supply the consumer with baseload power.

Finally, cross-border PPAs and investments to connect the RES to the grid should be encouraged**. State-backed bank guarantees[8], or mechanisms adapted to proving creditworthiness before concluding a PPA are an efficient way to encourage long-term contracts.**

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[7] Please find here the detailed green pool proposal by ENERVIS, March 2021
[8] See here Euractive Article « Spain calls on EU to endorse renewable energy contracts for industry », 14 February 2022

About European Aluminium

European Aluminium, founded in 1981 and based in Brussels, is the voice of the aluminium value chain in Europe. We actively engage with decision makers and the wider stakeholder community to promote aluminium's strategic role, secure growth, and stress our metal's contribution to meeting Europe's sustainability challenges. We do this through environmental and technical expertise, economic and statistical analysis, scientific research, sharing of best practices, and public affairs and communication activities. Our 95+ members include alumina refiners and primary aluminium producers; downstream manufacturers of extruded, rolled and cast aluminium; aluminium recyclers and national aluminium associations, representing together more than 600 plants and 1 million (direct and indirect) jobs in 30 European countries. Aluminium products are used in a wide range of markets, including mobility, aerospace, transport, clean tech, building and construction as well as packaging and consumer goods.