Fixed feed-in tariffs have produced heavy increases in the volume of electricity generated via renewables, but their continued existence diminishes the strength of market signals in European power markets. Steffen Köhler puts forward a different approach.

The price of wholesale power is determined every second, while the price of electricity paid to renewable generators is set for 20 years. The solution is a combination of the two – define the price as market price plus ‘x’, where ‘x’ is determined through a competitive process. This top-up above market prices guarantees a relatively high return for renewables, while the wholesale electricity price is determined in the context of continuously changing market conditions. This is one of the core elements in our position paper, in which we analyse the merits of renewables support in more detail.

We argue that a comprehensive revision of the funding mechanism for renewables is necessary to make sure that the market and competition are safeguarded, especially as the share of energy generated by renewables continues to grow.

First, renewables must be integrated into the market. Producers of renewable power should offer their electricity at marginal cost. Where this is zero, as in the case of wind, this can lead to bids at a price of zero. But production should not continue when there is oversupply, as indicated by negative power prices. Again, support for renewables is not the issue here, but support must aim to minimise market distortion.

Second, competition is important to make sure support levels are as high as necessary, but also as low as possible. This is why we call for the competitive auctioning of renewables support. Energy producers should bid for the level of support they need, with support paid as a premium over market prices. This premium should be capacity-based, with renewables plants being compensated for the capacity they provide, rather than for the megawatt-hours being fed into the grid. This is comparatively simpler than the current system, while it also minimises market distortion and leads to a level of production more in line with market prices.

What about the need for certainty? Obviously, a return on investment is one of the most fundamental requirements for investors in renewables. Rather than guaranteed absolute returns, it’s probably enough to create an agreeable level of certainty that you will see a return on investment. In our proposals, the relative return is guaranteed, but not the absolute return. And if you compare renewables to other investments that are just as risky, then you will still be rewarded with better returns.

Steffen Köhler is Leipzig-based chief operating officer at the European Energy Exchange. To read more content by Steffen Köhler, visit www.risk.net/energy-risk

In a world of guaranteed absolute returns, there is no incentive to react to supply and demand conditions. Renewable energy production has continued, even at times when there is no demand for additional energy. This increases the cost to society, leading to a heated debate about the true expense of supporting renewables.

My opinion is that we have created the market in such a way that renewables and wholesale electricity prices became totally independent. The price of wholesale power is determined every second, while the price of electricity paid to renewable generators is set for 20 years. The solution is a combination of the two – define the price as market price plus ‘x’, where ‘x’ is determined through a competitive process. This top-up above market prices guarantees a relatively high return for renewables, while the wholesale electricity price is determined in the context of continuously changing market conditions. This is one of the core elements in our position paper, in which we analyse the merits of renewables support in more detail.

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