

## ***THE GREEN OAT EVALUATION COUNCIL***

### **Terms of Reference**

#### **Impact Assessment of the Public Subsidies to Renewable Energies**

##### **1. Background**

In January 2017, when France issued its first sovereign Green Bond, the Green OAT 2039, it has committed to provide a thorough *ex post* environmental impact evaluation of green eligible expenditure under the guidance of the Green OAT Evaluation Council.

At its June 2021 meeting, the Council decided that the next evaluation should focus on the environmental impact of the public subsidies granted to the renewable energies. In 2021, the eligible components of these subsidies amount to €6.2 billion and consist of three budgetary supports – to renewables in mainland France, to energy transition overseas and to biomethane injection.

##### **i. Support to renewables in mainland France (excluding bio-energy) (P345 action 9)**

The expenditure under evaluation is a subsidy to the prices of energy produced from eligible renewable sources. It is therefore a key component of the Government's policy in favour of energy transition.

The French historical suppliers (EDF and local companies of distribution (ELD)) are required to conclude contracts for the purchase of electricity produced from renewable energy sources by installations eligible for purchase obligation or winners of a call for tenders.. Since 1 January 2017, accredited bodies may also manage purchase contracts with producers of electricity from renewable energy sources.

The additional cost resulting from the application of these contracts corresponds to the difference between the cost of purchasing electricity and the production cost of equivalent quantities (in the case of the purchase obligation), or the amount of the premium in the case of the supplementary remuneration. The State subsidy aims to compensate operators for this additional cost.

In its deliberation of 15 July 2020 on the evaluation of public service charges for energy for 2021, the Energy Regulatory Commission had forecasted that the total cost of supporting renewable electricity generation in metropolitan France in 2021 would be €5,685m.

These expenses are broken down into the following main sub-sectors: onshore wind power (€1,763m), photovoltaic solar power (€2,901m), bio-energy (€713m) and other energies (€307m). In order to avoid any controversy, it was decided that the Green OAT would not to refinance bio-energy, leaving the estimated amount of renewables to be refinanced at €4,971m.

##### **ii. Support to the energy transition overseas (P345 action 11.01)**

Tariff equalisation allows consumers in non-interconnected zones (ZNI) to benefit from electricity prices comparable to those applicable in continental metropolitan France, even though the costs of electricity production in these zones are significantly higher. This results in additional costs for the incumbent operators, EDF Systèmes énergétiques insulaires (EDF SEI), Electricité de Mayotte (EDM) and Eau et Electricité de Wallis-et-Futuna (EEWF), which are compensated by the State. Part of the corresponding cost is related to energy transition. This results from:

- the additional costs of producing electricity from renewable energy sources by the incumbent supplier;

- the additional costs of purchasing renewable energy through over-the-counter contracts;
- the additional purchase costs of renewable energy through purchase obligation contracts;
- costs related to energy demand management (EDM);
- costs related to the development of storage capacities;
- the cost of studies provided for in the multiannual energy plan.

The total amounts to an estimated €678m for the year 2021.

iii. Support to biomethane injection (P345 action 10)

In order to encourage the injection of biomethane into natural gas transmission and distribution networks, biomethane producers may conclude biomethane purchase obligation contracts with natural gas suppliers. The additional cost resulting from the application of these contracts corresponds, on the one hand, to the difference between the biomethane purchase price and the average price of natural gas on the wholesale market and, on the other hand, to the additional management costs directly incurred by natural gas suppliers as a result of the implementation of this system. This State subsidy aims to compensate operators for this additional cost.

The total amounts to an estimated €544m for the year 2021.

## **2. Content of the report**

The report will feature a non-technical summary and a full study. The study will begin with a brief description of the policy measures under review and include detailed results and description of the methodologies used, so that the Council may assess the scientific robustness of the analysis.

## **3. Detailed requirements on the report content**

The Council expects the evaluation team to assess the life-cycle environmental impact of the policy measures under review. In terms of contribution to climate change mitigation, the evaluation team shall chiefly quantify the reduction of GHG or CO<sub>2</sub> emissions made possible by the integration of renewables in the French energy mix, thanks to the above-listed public subsidies. Their general impact on pollution and the challenges associated to the recycling of renewables should also be discussed and quantified in the report.

It is crucial that the evaluation team shall assess any risks for biodiversity or land protection that could arise from the economic activities scrutinized in this study. The specific efforts deployed by energy producers in order to mitigate these risks should be given due consideration.

The report shall integrate as well the contribution of these public subsidies in a perspective of adaptation to climate change (for instance in securing energy supply in case of extreme climate events). The report shall also shed light on how the public subsidies to renewable energies may impact the evolution of the French energy mix over the medium to long term.

From a methodological point of view, the study shall also attempt to assess the alignment of the economic activities thus subsidized with the EU Taxonomy, including compliance with the “Do no significant harm” principle. All evaluations shall be carried out in reference to a counterfactual scenario, the relevance and the rationale of which shall be outlined in detail in the report or in its annex.

It is expected that the evaluation team shall provide the Council with an adequate methodology (such as a simple model, possibly presented in an Excel file) enabling the Secrétariat or the AFT to update on a yearly basis the calculation of the GHG and general pollution impacts of the subsidies for renewables. This algorithm shall be based on precisely referenced external information and data, which may themselves be updated over time (such as emission factors, for instance).

The Secretariat of the Evaluation Council and the French administrations concerned shall facilitate the access of the evaluation team to any information as well as the organization of required meetings with third parties.

#### **4. Referees**

If possible, two referees may monitor the evaluation process and guarantee its independence. They will be chosen based on their academic records in relation to the scope of study.

The referees will

- Provide insights and recommendations to the evaluation team, on the basis of the terms of reference.
- Be given access to draft versions of the report, exchange with the evaluation team at various stages and provide guidance during the whole process. The Secretariat will provide technical support along the process.
- Provide the Council with a summary of their exchanges with the evaluation team and will give their opinion on the reporting material submitted to the Council. This could take the form of a short presentation during two Council meetings.

#### **5. Tentative timeline**

As the evaluation team is expected to regularly report to the Council on the progress of its work, the timeline is contingent upon the dates of the next Council meetings. Therefore, in the event that these dates are modified the timeline below shall be adjusted accordingly.

- **December 2021** – Following a call for tender, the evaluation team should be selected.
- **First half of 2022** – The evaluation team shall present its methodological approach and main preliminary results to the Council (for instance on the occasion of its two meetings, in March and April).
- **Summer 2022** – Based on the actual figures for 2021, validated by the Commission de régulation de l'énergie (CRE), the evaluation team finalizes the calculation of the estimated environmental impacts for 2021.
- **September 2022** – The Council gives an opinion on the final report.
- **November 2022** – The final report is published.