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BETREFT Summary NCA audit report Promoting sustainable energy production in the Netherlands

Promoting sustainable energy production in the Netherlands. Feasibility and affordability of policy goals

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The Minister of Economic Affairs introduced the Sustainable Energy Production Incentive Scheme (SDE+) with the aim of having 14% of the energy consumed in the Netherlands produced from renewable sources, such as solar, wind, geothermal and biomass, by 2020 and, as laid down in the Energy Agreement, and 16% by 2023. The Netherlands is unlikely to reach these targets. Why not and what can be done?

1 Conclusions

SDE+ scheme produces less energy from renewable sources than thought

The SDE+ scheme will probably produce less energy from renewable sources than the government had originally thought. The grants provided by the Ministry of Economic Affairs (EZ) each year for the development of wind farms, hydroelectric power stations, geothermal pumps, biomass digesters and the like are too low. On paper, the budget is sufficient to achieve the policy goals for 2020 and 2023 but it takes no account of practical factors. SDE+ projects frequently suffer setbacks or delays. Furthermore, once the projects are in operation, on average they produce 26% less energy than theoretically possible on paper, sometimes because of technical problems, sometimes because of lack of biomass.

Goals for 2020 and 2023 out of reach but minister not adapting policy

As the minister's calculation of the SDE+ budget is based on the maximum energy potential of the projects, he is not awarding a euro too much in grants. But his cautious approach puts the policy goals for 2020 and 2023 at risk. With the current policy, the Netherlands will very probably not achieve its targets. According to

SUMMARY



various studies, the proportion of energy from renewable sources will most likely be 12.4% (instead of the 14% agreed at EU level) in 2020 and 15.1% (instead of the 16% agreed in the Energy Agreement) in 2023. The Minister of EZ has not yet responded to these forecasts by adapting the policy.

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Potential solutions: higher grants and/or open up SDE+ to projects abroad

The SDE+ scheme is relatively well designed. This is encouraging but it also means changes in the scheme will not automatically make the goals easier to achieve.

Other solutions look more promising: increase the size of SDE+ grants, possibly in combination with an extension of the scheme to include projects abroad.

- *Higher grants.* To achieve the policy goals with the SDE+ scheme, the Minister of EZ would have to provide an additional €12.8 billion in grants for offshore wind farms between now and 2023. This is 22% more than provided for in the current policy for 2011-2023.
- *Projects abroad.* The policy goals could also be achieved with less additional funding. If the SDE+ scheme were opened up to energy production projects in other EU member states, the energy produced would count towards the Dutch target. This option would still require an additional budget but it would be approximately €3.5 billion lower than in the scenario described above.

Alternatives: different policy or abandon the targets

The minister could also decide to introduce a new policy. If, for example, *energy savings are higher* than forecast, less energy from renewable sources will be needed to achieve the 2020 and 2023 targets. It is open to question, however, whether the minister can achieve sufficient energy savings in the limited time still available. The government could also decide to abandon the targets for 2020 and 2023. It could do so without running the risk of EU sanctions. The Netherlands can buy surplus energy produced from renewable sources in other EU member states. The cost of such an exchange, however, is uncertain.

House of Representatives has only limited insight into costs and benefits of SDE+

The minister does not provide the House of Representatives with straightforward information on the cost of the SDE+ scheme. Owing to the cautious implementation of the scheme, the amounts of the grants awarded each year are lower than the amounts earmarked in the budget. Greater transparency could be created for the House if the minister's draft budget included realistic information on the expected cost of the SDE+ scheme. The Minister of EZ does not explain to the House what contribution the SDE+ *should* be making to achieve the policy goals. Members of the House therefore cannot ascertain whether the impact of the SDE+ is better or worse than expected.



2 Recommendations

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We made the following recommendations to the Minister of Economic Affairs:

- Select a realistic scenario in 2015 to ensure that the Netherlands will achieve its renewable energy goals in 2020 and 2023, including a timeframe and a breakdown of the additional expenditure necessary to increase the budget or implement other policy options. Alternatively, make a deliberate choice to lower the targets and revise the agreements in the Energy Agreement accordingly.
- When estimating grant obligations, take account of the fact that the energy actually produced will be less than the maximum. Allow for a certain amount of 'spillage' (approve more grant applications than permitted on paper by the budget) and/or reserve more money in the budget.
- Clarify to the House of Representatives each year what progress the Netherlands has made with the SDE+. Explain what kind of energy production the SDE+ is intended to stimulate, including the steps to be taken each year, and the amount of money needed to achieve the policy goals.
- Submit realistic information to the House every year on the projected amount of the grants necessary to increase renewable energy production. Include this information in the ministry's budget.

3 Response

The Minister of Economic Affairs gave a number of undertakings in his response to our draft report. He will improve the information provided to the House of Representatives. Before taking a decision on additional budgetary measures to achieve the targets for 2020 and 2023, however, he would first like to see the results of the evaluation of the Energy Agreement that will be carried out in 2016.

In our afterword, we observed that waiting until the evaluation of the Energy Agreement has been completed in 2016 before taking a decision on additional budgetary measures would take too long. The alternatives we describe within the SDE+ scheme require a decision now, otherwise it will not be possible to achieve the target in 2020.