



Part I: Conclusions and Ministerial Response

Grant Scheme for the Environmental Quality of Electricity Production ('MEP grant')

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Netherlands Court of Audit, Lange Voorhout 8, P.O. Box 20015, 2500 EA The Hague, The Netherlands



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1 About this audit

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The Court of Audit was requested by the House of Representatives to audit the performance and results of the Grant Scheme for the Environmental Quality of Electricity Production, which was designed to promote the generation of green electricity. This grant scheme, also referred to as 'MEP grant', came into force in July 2003 and stopped accepting grant applications in August 2006.

We based our audit of the MEP grant on the ten questions put to us by the House of Representatives. In chapter 1, we outline the background, context, questions, scope and approach of the audit (see § 1.1 – § 1.5). The conclusions resulting from our audit are summarised in chapter 2. We discuss the ministerial response in chapter 3.

There is a second part to this report, in which we answer the questions put to us by the House of Representatives in more detail and substantiate our conclusions.

1.1 Background

The MEP grant, which came into force in July 2003, provided government grants for energy producers generating electricity from renewable sources (i.e. biomass, solar energy, wind and hydroelectric power). On 18 August 2006 the Minister of Economic Affairs decided to stop funding new applications with immediate effect. According to the Minister, the grants awarded up to that date were sufficient to achieve the policy goal of generating 9% of electricity in the Netherlands from renewable sources by 2010 (Ministry of Economic Affairs, 2006).

On 31 October 2006, the House of Representatives asked us to issue an independent opinion on the performance and results of the MEP grant (House of Representatives, 2006). Essentially this audit request required us to examine whether the grant had been effective and whether it had been performed efficiently and in conformity with the regularity standards. The House of Representatives intended to use the results of our audit when preparing its new policy on encouraging the generation of



electricity from renewable sources. These discussions are scheduled for 2007.

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1.2 Context of the grant scheme

Successor to the ecotax exemption regulations

The MEP grant was introduced on 1 July 2003 to replace the previous grant for producers of green electricity. The old grant provided for exemptions from and/or lower rates of the Regulatory Energy Tax (commonly referred to as 'ecotax'). One of the main disadvantages of these tax incentives was that they resulted in Dutch tax revenues being used in part to fund existing production capacity abroad rather than to encourage new generation capacity in the Netherlands. The uncertainty about whether the tax incentive would remain available inhibited growth in domestic generating capacity. The MEP grant was designed to resolve these shortcomings. The ecotax credit was abolished when the new grant was introduced, and the ecotax exemption was phased out between 1 July 2003 and 31 December 2004.

Discussions during and after introduction of the MEP grant

The MEP grant was devised over a short period in 2002-2003 and was designed to help achieve the target of having 9% of the electricity consumed in the Netherlands generated from renewable sources by 2010. Expectations were low for the new grant because it would cost less than the ecotax grant. Indeed during the House of Representatives' debate on the issue, the Ministry of Economic Affairs was accused of being 'miserly' in setting the conditions for the new grant. The energy sector successfully put pressure on the government to increase the grants. The Court of Audit, too, expressed scepticism about the feasibility of the grant's goals in the Groene Stroom (Green Energy) report that was published in 2004.

Structure of the grant

According to the Ministry of Economic Affairs, the MEP grant needed to meet four conditions if it was to promote investments in renewable electricity (Ministry of Economic Affairs, 2002a). The scheme had to:

1. compensate energy producers for the costs of the unprofitable investments needed to generate renewable energy in the Netherlands;
2. provide long-term investment guarantees for producers of renewable energy;
3. enable a distinction to be made between the various generating methods when awarding grants per kWh generated;



4. use the country's potential for generating energy from biomass and wind.

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It was decided that EnerQ, a subsidiary of the national network manager TenneT,¹ would be responsible for operating the MEP grant.

Financial significance

A total of € 1.456 billion was paid out under the MEP grant between 2003 and 2006.² The costs of operating the grant during that period amounted to at least € 19.4 million. These were the costs incurred by EnerQ. In other words, the operating costs amounted to at least 1.3% of the total amount spent on the grant. Other organisations, specifically the operating organisation CertiQ,³ the network managers and the Ministry of Economic Affairs, also incurred costs. The Ministry was unable to provide a breakdown of the costs incurred by the network managers and the Ministry.

Closed to new grant applications

On 18 August 2006 the Minister of Economic Affairs announced an immediate stop to the MEP grant for all new applications.⁴ This was prompted by the budgetary problems experienced in managing the grant, which had been funded partly from the central government budget since 2005 and fully from this source since 2006 (previously the grant had been funded outside the Economic Affairs budget from surcharges on electricity connections).⁵

These manageability problems, however, did not provide a statutory basis under the Electricity Act (*Elektriciteitswet 1998*) to discontinue the grants. The formal reason given for the decision to stop considering any new applications was that, according to the Minister of Economic Affairs, it would be possible to reach the MEP target by 2010 without any new grants being awarded.

¹ 'TenneT' refers in this case to TenneT TSO BV, which is a wholly owned subsidiary of TenneT Holding BV. All the holding company's shares are in turn held by the Dutch State.

² This includes the € 320 million spent on combined heat and power (CHP).

³ CertiQ is also a subsidiary of TenneT. It issues 'guarantees of origin' designed to ensure that electricity producers comply with the requirements of the scheme, i.e. that the electricity to which the grant relates is actually generated from renewable sources. CertiQ's total operating costs in the years 2003-2006 amounted to € 9.6 million. Only part of this amount, however, is attributable to the MEP grant.

⁴ In effect no new applications for grants have been accepted since that date, but existing MEP projects have continued. This means that MEP grants are still being paid to producers generating electricity from renewable sources if their application was granted before 18 August 2006.

⁵ This is discussed in more detail in chapter 2: 'Conclusions'.



1.3 Audit questions

The audit of the grant was based on the next ten questions put to us by the House of Representatives.

1. Which companies and projects received MEP money?
2. Was the goal of the MEP grant clear, also when the policy was being devised?
3. Was the money used efficiently and effectively, given the purpose of the legislation?
4. What did it cost to operate the grant?
5. Did the Ministry manage the grant properly?
6. To what extent were the grants needed in order to get and keep projects going?
7. To what extent has there been too little or too much stimulation of MEP projects?
8. To what extent have the various grants to encourage MEP projects been cumulative?
9. To what extent did the money go to the most or least profitable technologies?
10. What incentives are used internationally to promote the generation of electricity from renewable sources?

We used these questions as the basis for investigating the extent to which the MEP grant operated in conformity with regularity standards and also whether it was effective and efficient.⁶ Our conclusions are outlined in chapter 2. These conclusions relate to questions 2, 3, 5, 6, 7 and 9, while the answers to the other, more factually oriented questions (1, 4, 8 and 10) are not covered by the conclusions presented in this part of the report.

Detailed answers to all the above questions can be found in part II of this report.⁷

⁶ See Appendix 2 of Part II, 'Terms and standards' for an exact explanation of what is meant by 'regularity', 'efficient' and 'effective'. MEP grants have also been awarded for combined heat and power. As this is not energy from renewable sources, we did not include it in our audit. In some summaries and tables, however, it is difficult to separate combined heat and power from electricity generated from renewable sources. In such cases, therefore, it has been included.

⁷ Essentially, the answers to these questions (which are discussed in more detail in chapters 5 and 6 of Part II) can be summarised as follows: most of the money turns out to have been allocated to projects generating electricity in large-scale biomass plants (41% of the total, question 1); only limited information is available on operating costs (question 4); in cumulative situations, no account was taken of CO₂ emissions trading (question 8); international comparisons show that feed-in tariffs are the most effective way of encouraging the generation of wind power on land and



1.4 Audit scope

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The effectiveness and efficiency of policy on renewable energy can be assessed at two levels, a high level and a low level (Koutstaal & Heijs, 2005):

- The question at the *high* level is whether the policy on renewable energy is effective and efficient in dealing with the adverse external effects of using fossil fuels. These include climate change, environmental pollution and risks for the security of energy supply. In this respect, efforts to stimulate renewable energy must be weighed against other options, such as decisions to focus on saving energy or to build up fuel stocks, in order to assess whether they are effective and efficient.⁸
- At a *lower* level, however, there is only one issue to be considered, in this case the goal of generating renewable electricity. The question then is whether the renewable electricity objectives are being achieved efficiently and effectively.

This report provides answers solely to the questions posed by the House of Representatives on (a) the regularity, (b) the effectiveness and (c) the efficiency of the MEP grant. These questions apply to the lower assessment level.

Questions at the higher level are outside the scope of this audit, although they are obviously very important for future policy development.

1.5 Audit approach

In our audit we examined the three aspects of the assessment level outlined above as follows:

- *Regularity and financial management.* Wherever possible we sought to use existing investigations, including the audit that the Ministry of Economic Affairs' Audit Department performed of the Ministry's internal management of the grant, when forming our opinion on the regularity and financial management of the grant. We also performed a review of PWC, the firm of auditors which issues the statement of regularity on EnerQ's annual report.

that the Netherlands is one of the top countries in terms of the effectiveness of its generating of energy from fixed biomass (question 10).

⁸ The Court of Audit will be publishing a report on the trading of CO₂ emissions, to which this question is also relevant, later this year.



- *Effectiveness.* In order to evaluate the effectiveness of the grant we assessed the goals set for the grant and the policy behind them to see whether they were consistent with other policy. We also assessed information provided by the Ministry of Economic Affairs and EnerQ on the achievement of MEP goals.
- *Efficiency.* In order to evaluate the efficiency of the grant we considered whether in retrospect the grants had perhaps been set too high.



2 Conclusions

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The most important conclusion in our audit is that, when making the MEP grants available, the Minister of Economic Affairs focused solely on achieving the policy goal agreed with the European Union (9% of annual electricity consumption in the Netherlands generated from renewable sources by 2010). The Minister failed, however, to devote sufficient attention to ensuring that the goal was consistent with other policy goals for renewable energy and a renewable environment, such as the policy goals for air quality, sustainability and reductions in CO2 emissions. In our view, the Minister also paid too little attention to the efficiency of the grant and its financial management. In addition, our audit shows that it is far from certain that the target for 2010 will actually be achieved.

We discuss our opinions in more detail below, including the consequences of the various problems identified.

2.1 Consistency of the grant with other policy goals

MEP grant not always consistent with other energy policy goals

The MEP grant was designed to provide a powerful and cost-effective way of helping to achieve the target set in the 2001 EU Directive⁹ for 9% of domestic electricity consumption in the Netherlands to be generated from renewable sources by 2010.

When devising the grant, the Minister of Economic Affairs focused somewhat one-sidedly on achieving this goal. We found that in practice this resulted in inconsistency with other Dutch energy policy goals, i.e. ensuring a reliable, clean and affordable energy supply. In practice, the grant is not consistent with these three basic principles.

Firstly, the structure of the grant assumes that much of the green electricity generated will be produced using biomass. Whether, however, there will be sufficient sources of sustainable and affordable biomass in the coming years is uncertain. Therefore, In this respect, it cannot

⁹ EU Directive 2001/77/EC.



automatically be assumed that this form of energy will help to guarantee supply.

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Secondly, electricity generated primarily from biomass is not completely CO₂-neutral or clean. In the cases of certain types of biomass – palm oil, for example – the CO₂ emissions over the production chain as a whole are in fact as high as or higher than when fossil fuels are used. In addition, biomass combustion creates sustainability problems other than climate change, including the destruction of tropical rainforests, a reduction in the availability of food crops and a worsening of the air quality around biomass power stations.

Thirdly, the way the MEP grant operates in practice conflicts with the principle of affordability. We found that the grants awarded to energy producers were too high in certain cases. In other words, more was paid than the producers needed to offset their start-up investments (see § 2.4 below).

Electricity generated from biomass not always renewable

When devising the grant, the Minister of Economic Affairs interpreted the term 'renewable' primarily to mean 'climate-neutral', while the definition used internationally (and indeed also nationally) is far broader.

The Ministry of Economic Affairs states that it has followed the EU Directive literally and that 'sustainability issues' are being dealt with via another channel.

MEP grant overlaps with system for trading greenhouse gas emissions

In order to achieve the objectives of the 1997 Kyoto Protocol, the EU established a system of national emission ceilings in combination with a system for trading CO₂ emissions. We found that the MEP grants reduced the effectiveness of this system for trading CO₂ emissions. Businesses receiving MEP grants can replace electricity generated from fossil fuels by electricity generated from renewable sources without needing to use their emission rights. This is because they do not need emission rights for the electricity generated from renewable sources. As a result, the electricity sector actually has a surplus of CO₂ emission rights. These can then be sold, which means an increase in the supply of emission rights and a corresponding decrease in their price. This in turn means businesses have less of a price incentive to take action themselves to reduce CO₂ emissions.¹⁰

¹⁰ For a detailed discussion and assessment of the instrument of CO₂ emissions trading, we refer to the audit that the Court of Audit is currently conducting in this respect. It is expected to be published in the second half of 2007.



2.2 Regularity of performance and financial management

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Open-ended grant

In order to provide certainty for parties investing in renewable electricity, it was originally decided to fund the MEP grant outside Economic Affairs' budget by levying charges for electricity connections. According to the Minister of Economic Affairs, this would provide better protection for the grant in the event of government spending cuts, and thus greater certainty for investors.

This choice of funding made the MEP grant an *open-ended grant* in that there was no budgetary ceiling and no limit to the number of businesses able to apply or the extent to which they could use the grant.

If the grant had been funded from the budget from the start, the Ministry of Finance would have checked to see whether the grant had a budgetary ceiling, and it is highly likely that the structure of the grant would have been subject to debate.

From the very start, the open-ended nature of the grant was an inherent problem. Each individual grant awarded could have unpredictable financial consequences. This structure made the grant financially unmanageable. As a result, monitoring and supervision by the Ministry of Economic Affairs was particularly important. And this became clearly evident in 2005 and 2006, when it was decided that in the future the grant should be funded wholly from the budget.

The budgetary difficulties experienced in managing the grant were ultimately one of the main issues prompting the decision to reduce the MEP rate for all types of renewable electricity to zero in August 2006.

Lack of management guidance by Ministry of Economic Affairs

Both the regularity and financial management of the MEP grant suffered as a result of the lack of management guidance provided by the Ministry of Economic Affairs. The fact that the Ministry had chosen to fund the grant outside the central government budget meant that it also fell outside the scope of the Ministry's own financial management. The TenneT subsidiary EnerQ was made responsible for operating the grant.

Placing responsibility for operating the grant at such a distance made proper monitoring and supervision vital. The management guidance provided by Economic Affairs proved in practice, however, to be



inadequate, partly because of shortcomings in legislation, but also and primarily because of the Ministry's lack of a sense of urgency.

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Shortcomings in legislation

The monitoring and supervision needed to ensure proper financial management of the grant were undermined by various legislative shortcomings, including the three listed below:

- *Until 2005, no checking of amounts received from the network managers.* It was only from 1 January 2005 onwards that the local network managers were obliged to check that the MEP charges reported by the energy producers as having been levied on consumers were correct and complete.
- *Central government payments to EnerQ without minimal management conditions.* The payments by the central government to EnerQ of € 176 million in 2005 and € 310 million in 2006 were made without being subject to the normal requirements applied in respect of advances, payments and final settlement of grants. This means that in advance no consideration was given to the liquidity requirements that EnerQ had to meet as a result of its paying out grants (and thus the actual use of grant money by the final recipients).
- *Audit guidelines not compulsory for biomass.* The Ministry of Economic Affairs has not yet made it compulsory for audits of the amounts of biomass used, as reported by energy producers receiving MEP grants, to comply with the audit guidelines drawn up by CertiQ (Court of Audit, 2007).

Importance of financial management underestimated

The importance of ensuring proper financial management of the MEP grant was underestimated. This applies at all levels within the Ministry of Economic Affairs:

- *Too little attention from line management.* An audit by the Ministry of Economic Affairs' Audit Department found that line management had not given the grant the attention that the file merited, given the issues associated with it. Even if problems were identified, too few details were communicated to a higher level within the organisation.
- *Too little capacity.* The Ministry Audit Department also highlighted in its report that Economic Affairs had allocated too little capacity to manage the grant. In other words, 2.8 - 3.7 FTEs (and of this latter figure, a total of 2.2 FTEs were allocated to policy development). The Financial and Economic Affairs Department identified this as a policy risk back in 2005.
- *Minimal monitoring of policy spending.* Throughout the period that the grant operated (2003 - 2006), the Ministry's information on the



amounts being spent was inadequate and not available in time. For this information, the Ministry needed input from the Energy Research Centre of the Netherlands (estimates) and EnerQ (payments made). However, the Ministry did not make it sufficiently clear to these organisations which specific information it required. As a result, the required information was not always supplied.

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- *Inadequate supervision of EnerQ by Ministry.* The Ministry of Economic Affairs did not review any audits of EnerQ and nevertheless approved the annual report each year, even though in various respects it did not comply with the audit guidelines. When conducting an audit of EnerQ in 2005, the Ministry Audit Department itself did not identify any issues pointing to shortcomings in the financial audit. The audit of EnerQ, however, covered only the operating costs of around € 5 million and not the supervision of the grants actually awarded under the MEP grant.¹¹

2.3 Effectiveness of the grant

Feasibility of policy goal uncertain

It is not certain that the policy goal for 2010, of having 9% of domestic electricity production generated from renewable sources, will be achieved, primarily because of the uncertainties concerning the amount of electricity that can be generated from biomass.

The Ministry of Economic Affairs estimates that around half of the total amount of electricity generated from renewable sources in 2010 will be attributable to biomass. In practice, however, this figure could turn out lower, as the Ministry's forecast assumes that the total amount of biomass for which MEP grants have been applied for, will actually be used to generate electricity. There are two reasons however why this is uncertain.

First, electricity producers applying for MEP grants are not actually obliged to generate a specified amount of renewable electricity. They can decide to reduce or even stop using biomass, and no sanctions will be applied. A producer may take such a decision if, for example, biomass prices rise by to a level that the financial benefits of burning fossil fuels outweigh the financial benefits of the grant.

¹¹ See also our *Report on the 2006 Annual Report of the Ministry of Economic Affairs* (Court of Audit, 2007).



Second, it is unlikely that the amounts of biomass used by electricity producers over the next ten years will exceed the amounts for which grants have been requested. This is because they will not receive a grant for any surplus generated, while they need the grant if generating electricity from biomass is to be profitable.

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Whether the policy goal for 2010 is achieved will depend to a significant degree on world market prices for biomass, the price of 'ordinary' electricity and the results of the current discussions of sustainability at both a national and European level. In other words, the extent to which biomass may be used to generate green electricity. All of these factors are uncertain. They all, however, point in the same direction, and that is that the actual amounts of renewable electricity generated from biomass may turn out to be lower than assumed in the Minister of Economic Affairs' forecast in September 2006 (Ministry of Economic Affairs, 2006). Another uncertain factor is what will happen in respect of grants that have been applied for, but not yet awarded under the MEP grant.

All these uncertainties may result in the total amount of electricity generated from renewable sources in 2010 being lower than the 11,821 GWh forecast by the Minister of Economic Affairs. This in turn will result in the percentage of renewable electricity generated being below the 9.1% - 9.4% assumed in September 2006.

Risk of lower effectiveness as a result of MEP money not being spent

If less renewable electricity is generated than the amount for which a grant has been awarded the grant paid out is lowered. The Ministry of Economic Affairs has stated that money not spent can in due course be allocated to new renewable electricity projects under a new MEP grant. We question whether this is in fact a realistic expectation. If new projects are to start in time for 2010, an assessment will be needed in the very near future of the proportion of grant applications for the period 2007 - 2010 that will not be used. This would require companies to give an indication now of the extent to which they will not be using grants they had previously applied for. And this would be disadvantageous for them.

2.4 Efficiency of the grant

Wind power grants may have been too high

Our audit of the efficiency of the MEP grant found that at present some form of grant is almost always needed if green electricity is to be



generated. Few producers will be prepared to generate green electricity without a grant.

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It is conceivable, however, that the grants awarded for generating green electricity from wind power may have been too high, as indicated in the quantitative analysis that we commissioned.¹²

According to this analysis, the grants awarded by the Ministry of Economic Affairs may have been about 50% too high (i.e. € 208 million) between 2003 and 2006 in the case of projects generating wind power on land. This was mainly caused by the grant being based partly on a conservative estimate of the future electricity price, which was then fixed for ten years. Even if average electricity prices over the next few years turn out to be considerably lower than in recent years, the grants provided for generating wind power on land will have been higher than needed to offset the additional costs of the investments.

It should, however, be noted that this calculation does not take into account the fact that the MEP grants paid out in the future will be lower because no further grants will be paid for green electricity generated by wind power above a maximum number of running hours.¹³

We have also examined how the MEP grant operates in situations in which biomass is used at power stations. The biomass market lacks transparency because the number of participants is limited and various types of biomass are used. The limited analysis that we conducted in respect of green electricity generated by using wood in dual-fuel installations¹⁴ suggests that the grants awarded in 2004 for this type of biomass were also on the high side. Here, too, however, our conclusion cannot automatically be extended to the future, given that biomass prices have risen in recent years.

Fixing electricity price on a low level main cause of excess profits on wind power generated on land

The conservative estimate of the future electricity price (which was fixed for ten years) is a crucial element of the explanation as to why too high grants were awarded for green electricity generated from wind. An

¹² The research and advisory organisation CE made these calculations for the Court of Audit. See Appendix 3 for an explanation of the methods used.

¹³ No further MEP grants are available for generating wind power on land above the ceiling of 20,000 full-load hours.

¹⁴ Wood can be used at normal gas/coal power stations that have been adapted to take certain types of biomass.



important lesson can be learnt from this analysis, and that is that much of the excess profits could have been avoided or prevented by linking the amounts of the grants directly to actual (and forecast future) electricity prices and not fixing them for longer periods.

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A second lesson to be learnt is that the lack of information on actual biomass prices carries an inherent efficiency risk in the MEP grant.



3 Ministerial response and afterword by Court of Audit

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The Minister of Economic Affairs responded to our audit findings on 1 May 2007. We also received a response from TenneT, in the form of a letter on 18 April 2007. The responses of both parties are summarised below. Full details can be found on www.rekenkamer.nl.

3.1 Response of Minister of Economic Affairs

The Minister of Economic Affairs recognises that various significant aspects of the MEP grant and the way in which it operates need improving. The Minister indicated that the improvements would take account of the Court of Audit's report and conclusions, while also pointing out that it is always easy to see mistakes retrospectively. She regrets the absence of any mention in Part I of the report of the fact that internationally the Netherlands is doing "relatively well". In the rest of her response, the Minister uses the same headings and sub-headings as in Part 1 of our report.

MEP grant not always consistent with other energy policy goals

In response to our comments on the extent to which biomass contributes to the security of energy supply, the Minister stated that, in practice, it was relatively easy to replace biomass by other fuels.

As for biomass not being fully CO₂-neutral, the Minister said that the CO₂ gains were higher than we implied. The Minister also stated that, at the government's request, the Cramer Committee had compiled sustainability criteria. These took account of various sustainability aspects, such as the CO₂ effects throughout the chain (including the effects of changes in land use), the impact on biodiversity and competition with food production. The Minister wants these criteria to play an important part in determining the extent to which biomass is eligible for grants under the MEP grant.

The Minister also stated that where national environmental legislation is unable to prevent emissions exceeding those produced by competing forms of energy generation, assuming the best levels of technology



currently available, the opportunity to reject applications for grants in such circumstances would be incorporated into the new scheme.

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MEP grant overlaps with system for trading greenhouse gas emissions

The Minister recognises the relationship that we referred to between an increase in renewable electricity generation for which grants have been awarded and the de facto creation of surplus CO₂ emissions rights. The Minister stated that the new grant would take greater account of this aspect than the old grant did.

Open-ended grant

The Minister shares the conclusion we reached on the financial management of the grant. In contrast to what we implied, the Ministry of Finance had, according to the Minister, assessed and approved the grant, including its open-ended nature.

The Minister did not agree with us that the difficulty in managing the grant from a budgetary perspective was one of the reasons behind the decision in August 2006 to close the grant to new grant applications. She stated that this was done because the monitoring data showed that the 9% target could also be reached without new grants being made available. Given the status of the government at the time, it would be up to a new government to make money available for achieving higher levels of ambition.

Shortcomings in legislation

The Minister discussed our conclusion that there were three elements lacking in the legislation relating to the MEP grant:

- She advised us that the problem of the absence of checks on amounts received from the network managers in the years to 2005 had since been resolved.
- The Minister did not agree with our criticism of the way in which central government payments to EnerQ were not subject to minimal management conditions. The central government payments were made only on condition that they were transferred to the equalisation reserve. The equalisation reserve was also fed by consumer charges in 2005 and 2006. This latter option was discontinued from the start of 2007, giving rise to a new situation. The Minister therefore agrees with the recommendation we gave in our report on Economic Affairs' 2006 Annual Report, that the way in which the central government payments were made would need to change from 2007 onwards because consumer charges would no longer be available.



- Lastly, the Minister said that she would consider making it compulsory for biomass statements issued as part of an audit to comply with the audit protocol. 17

Importance of financial management underestimated

The Minister acknowledges to some degree our criticism that the importance of the financial management of the grant was underestimated at all levels of her Ministry, certainly in the initial phase.

The Minister also states that Economic Affairs must in principle be able to rely on the accuracy of statements given by EnerQ's external auditors. In the Minister's opinion, therefore, it is EnerQ's external auditors who should in the first instance be blamed for any failure in EnerQ's Annual Report to comply with the audit guidelines.

Feasibility of policy goal uncertain

The Minister states that she recently requested new calculations of the percentage of electricity that can be expected to be generated from renewable sources by 2010. These calculations show, according to the Minister, that a target of at least 9% remains realistic. In her view, the doubts we express about the feasibility of the 9% target are insufficiently substantiated.

Risk of lower effectiveness as a result of MEP money not being spent

The Minister states that as soon as it becomes likely that projects awarded a grant will not get off the ground, or at least not to the extent originally envisaged, the forecasts for the various years will be adjusted. This will result in previously allocated money becoming available once again.

Efficiency of the MEP grant

In response to our conclusion that the grants provided for generating wind power on land were considerably higher than necessary, the Minister said that the House of Representatives and the energy sector had been very keen to provide investment certainty when devising the MEP grant. And this was reflected in the decision to fix the electricity price for ten years. The new grant, however, would be linked to actual (and in the future expected) electricity prices.



3.2 Response of TenneT

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TenneT states that it cannot give an opinion on the issues raised in the 'financial management' section of the Ministry Audit Department's report (§ 5.4 in Part II) – which accounts for a significant share of our findings and conclusions – because it was not involved in compiling that report. TenneT would possibly have phrased some passages differently.

TenneT agrees with our analysis that, unless additional measures are taken, the amount of electricity generated from renewable sources by 2010, specifically from biomass, may well be significantly lower than the Minister of Economic Affairs is forecasting. TenneT emphasises, however, that the Ministry has put forward a workable solution.¹⁵ TenneT is also in favour of 'rapidly implementing' an improved MEP grant by, for example, making one or more categories of renewable electricity generation eligible for grants now, providing they remain within the ceiling set for the relevant category.

TenneT lastly confirms that our comment (in Part II, § 6.2) that the forecast and desired targets have not yet been achieved by setting obligations at a national level is in line with what TenneT has observed in practice. A generic obligation is ineffective. In TenneT's view, it should be possible to combine the strong points of the two most commonly applied systems.

3.3 Afterword by Court of Audit

3.3.1 Afterword on Minister's response

We appreciate the Minister's decision to take our conclusions into account when devising the new MEP grant. At the request of the House of Representatives, we added an international dimension to the audit (see Part II, chapter 6). Given, however, the short time available for our audit, it was not possible to form a view on the differences in the effectiveness of the grant in the various countries. This is why our report does not contain any conclusions on this aspect.

¹⁵ TenneT is referring in this respect to the possibility of reallocating MEP funds that have not been invested. In her response the Minister provides a detailed discussion of our passages on the effectiveness of the MEP grant.



MEP grant not always consistent with other energy policy goals

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The Minister states that biomass can easily be replaced by other fuels and that the security of energy supply is consequently not at risk in this respect. Our concerns relate not so much to a reduction in the security of energy supply as a result of using biomass. Rather we have doubts as to whether – assuming that efforts to ensure renewable supplies of energy continue – biomass can make a structural contribution to *increasing* our security of energy supply because here, too, just as in the case of fossil fuels, we are reliant to some degree on imports of energy carriers.

The Minister acknowledges that electricity generated from biomass is not CO₂-neutral, but states that the CO₂ gains are higher than we imply. In our view, the origins and sustainability of biomass generated in the Netherlands remain very unclear. Figures published on the extent of CO₂ gains attributable to electricity generated from biomass also vary significantly. Given these uncertainties, we very much appreciate the Minister's undertaking that proper and thorough account will be taken of sustainability criteria when awarding any future grants for biomass. The Minister also acknowledged our criticism by confirming that she was considering excluding some biomass applications with too high NO_x emissions from eligibility for MEP grants. We are also pleased to note that the adjusted MEP grant will take more explicit account than at present of the issue of surplus CO₂ emissions rights.

Open-ended grant

We state in our report that a grant funded within the Ministry's budget is subject to stricter testing than one funded outside the budget. We did not, however, intend to imply that the Ministry of Finance had not assessed the grant.

In contrast to what the Minister states in her response, we do not consider it inconceivable, based on the analysis of the Ministry Audit Department, that the budget-management problems experienced in managing the grant helped accelerate the internal discussions on the scope of the goal and the decision to close the grant to new grant applications. We do not, however, claim that these budget-management problems were the actual reason.

Shortcomings in legislation

We note that the Minister makes a distinction between central government payments in combination with consumer charges on the one hand and a system relying solely on central government payments on the other. We regard this distinction as strange: in both cases we believe it to



be preferable to operate a system of advance payments, made in stages and based on the grants paid by EnerQ, in order to ensure that central government money is properly and efficiently managed.

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Once again we urge the Minister to make it compulsory for audits of biomass statements to comply with the audit protocol.

Importance of financial management underestimated

The purpose of our stating that, in certain respects, EnerQ's Annual Report did not comply with the audit protocol was purely to indicate that the Ministry too did not apply the protocol. The Ministry has already acknowledged that the audit protocol are not intended for the external auditors.¹⁶

Feasibility of policy goal uncertain

The Minister states that, according to recent calculations, generating 9% of electricity from renewable sources by 2010 remains a realistic possibility. As these calculations were made *after* we had completed our audit, we were not able to evaluate the new data. We will, however, include any new information in our monitoring of how the MEP grant develops. We will then present our findings in our usual impact assessment.¹⁷

Risk of lower effectiveness as a result of MEP money not being spent

We continue to have doubts as to whether producers will be able to indicate in advance the extent to which they will not be using money made available to them under the MEP grant. We should also like to emphasise that the uncertainties we refer to relate solely to the question of whether the 9% goal is achievable under the *existing* grant.

Efficiency of grant

We believe that the various measures referred to by the Minister represent a step in the right direction towards improving the MEP grant and also reflect an important lesson to be learnt from the audit. We will continue to follow developments in this area with interest.

¹⁶ See Part II, § 5.2.1 and 5.2.3 under the heading 'Practice'.

¹⁷ The Court of Audit has a system in place to test the effects of its audits. We monitor whether ministries adopt our recommendations and comply with their undertakings over a longer period of time. We periodically present the findings of our monitoring activities in impact assessment reports.



3.3.2 Afterword on TenneT's response

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We believe that the suggestions made by TenneT in its response make a meaningful contribution to improving a system designed to promote the generation of electricity from renewable sources.



Summary of main conclusions and responses

Location in Part I	Conclusion	Response of Minister of Economic Affairs
§ 2.1	Insufficient attention paid to consistency of MEP grant with other policy goals for renewable energy and the environment	Conscious decision not to seek to achieve various goals via one grant. Piling up of objectives would make the grant complicated and difficult to implement. New grant will tie in with Cramer Committee's sustainability criteria for biomass.
§ 2.1	Operation of MEP grant not consistent with basic principles	Cost-effectiveness: in certain cases, higher grants were awarded than proved subsequently to be needed. The new MEP grant will link grants to actual electricity prices.
§ 2.2	MEP grant unmanageable because of lack of budget ceiling.	This is correct. New legislation will be introduced to set a ceiling from 1 January 2007.
§ 2.2	Insufficient monitoring and supervision by Economic Affairs. Shortcomings in legislation, and underestimation of importance of financial management.	Until mid-2006 too little attention was indeed paid to monitoring, supervising and operating the MEP grant. The situation has improved since then, and this will continue.
§ 2.3	Considerable uncertainty as to feasibility of policy goal for 2010.	According to recent calculations, based on realistic assumptions, the goal of 9% is certainly still feasible.
§ 2.3	Risk of lower effectiveness because of MEP money not being invested.	Risk is considerably lower because money that has not been spent can be released and redeployed.
§ 2.4	MEP grants were too high in 2003 - 2006.	In retrospect, EnerQ did indeed pay out higher amounts than needed in certain cases (see response to the following point)
§ 2.4	The low electricity price set was the main reason for the excess profits earned by grant-aided producers generating wind power on land.	Fixing of low electricity price does indeed mean that grants may have been too high. The new grant will therefore be linked to actual electricity prices.