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Mr. José Manuel Barroso
President of the European Commission
B-1049 Brussels

26 October 2009

Dear Mr Barroso,

Re: Energy Policy in the European Union

1. You will receive many letters on energy policy at present, and I hesitate to add to your reading burden, but after some time discussing these matters with colleagues in the sector I felt that it would, after all, be appropriate to trouble you with our views.

2. Simply, while we sympathise with the broad goals of EU energy policy it is not always clear that the means chosen are likely to be cost-effective, or indeed effective at all.

3. Furthermore, we are very concerned that the measures being brought forward may have unintended consequences that are in themselves dangerous, and may even be counterproductive.

4. The principal focus of our anxiety is the 2020 renewable energy target, which is overly ambitious and will require market interventions on a scale that distort the rest of the energy sector, and will, in our judgment, destroy wealth by employing capital in a sub-optimal way and by increasing consumer costs.

5. An overemphasis on wind power is the principal issue here, and to an outside observer it can occasionally appear that the Commission is too trusting of wind industry assertions.

6. For example, it is often said that Denmark obtains 20% of its electricity from wind. But a recent study shows that this form of words is misleading.

7. In reality Denmark's electricity system is part of Germany's much larger network; indeed, the spot markets in Denmark and Germany are now synchronised, partly because of the presence of wind power. In a sense the Danish example doesn't exist.

8. Rather, it is more accurate to say that Germany-and-Denmark has absorbed around 7% of wind energy, and this has only been achieved because of access to the vast but now saturated balancing resources of Norwegian hydro.

9. Even at the current low level of penetration the German and Danish markets are experiencing very high prices at times of low wind, and negative prices at times of high wind and low electricity demand. Economic indicators such as these are sure indications of technical difficulty.

10. This is a sign of things to come, and our engineering colleagues tell us that the balancing problems that the EU policies will create are unprecedented and require novel solutions that are hard to imagine and impossible to cost.

11. But there is yet another issue. From Germany and Denmark we learn that wind power can supply almost no *reliable* capacity, and that most future electricity systems in the EU must retain as much conventional plant as they do today to meet load.

12. Since many states urgently need to renew their generation fleets we are asking investors to put capital into generators that will operate in a market that is not only smaller, but also economically and physically volatile.

13. Naturally, such investors will tend to reduce risk by selecting the least capital intensive technology available, gas generation, regardless of likely future fuel price, which they can regard as a “pass through” cost.

14. Thus, **the EU renewable policy is in effect a gas policy, leaving the EU electricity system critically dependent on one fuel and one technology to meet peak load, on a cold winter’s evening.**

15. And yet this clearly imprudent result will have been bought at an extremely high price in consumer subsidy to renewables, with all that this implies for our international competitiveness.

16. We are available to discuss the above with you and your colleagues in the Commission in greater detail at your convenience. We would be grateful if you would consider a meeting for this matter which I am sure is of as much concern to you as it is to us.

Yours sincerely,

Coen Teulings
Chairman