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Lobbyist's take on renewables causes it to lose friends

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Keeping the lights on: power bosses suggest that renewables may cause blackouts across Europe

One of Europe's biggest utilities has broken ranks with EU counterparts over the issue of incentives to maintain conventional power generating capability.

Sabine Froning, head of European affairs at Vattenfall, the Swedish utility, says it left the Magritte Group of big European energy companies after the Group continued to push for "capacity mechanisms" – payments for maintaining the ability to generate power when needed, rather than for the amounts of energy produced.

"The perception of the Magritte Group being positive to capacity markets made it easier for us to leave," Ms Froning said. "We do not think they are the correct solution."

Vattenfall quit the Magritte Group in February 2014, but has been guarded about its reasons for doing so. Perceptions of the Group as "locked in the past" helped persuade Vattenfall to pull out, Ms Froning said, as the main purpose of its membership was to launch a debate over Europe's energy future, not to become a "permanent platform".

"It is not a problem to be outside the Magritte Group – there are sufficient platforms in Brussels where we are discussing the challenges with our peers and with other stakeholders, not only inside the utilities industry," she says.

The Magritte Group, established by Gérard Mestrallet of GDF Suez in May 2013, has pushed to stop or reduce radically subsidies for renewable energy, while seeking support for conventional power generation. EU leaders' rejection of binding renewables targets at their climate summit last month met another of the Group's demands.

Named after the venue of its inaugural meeting in the Brussels museum of René Magritte, the surrealist artist, the Group says Europe may suffer blackouts if its energy markets are not reformed.

"Energy companies are facing an unprecedented financial meltdown and competitiveness crisis," it warned in a recent internal document.

Large investments in oil and gas-fuelled power stations in the first decade of the century backfired as prices for coal fell and energy demand shrank as a result of the financial crisis, leaving many utilities companies with "stranded assets" as plants were mothballed or closed.

Subsidy schemes have been useful in kick-starting investment in renewable energy, the Group says, but have resulted in "higher than expected costs for society and distortions in the electricity market". The situation is leading to "premature decommissioning of efficient power plants, even though they are needed".

Conventional back-up generating capacity is indispensable to meet peak power demand on windless or cloudy days, hence the Group's push for capacity mechanisms to help stem its losses on gas-fuelled power plants.

The Magritte Group initially brought together France's GDF Suez, EON and RWE from Germany, Iberdrola and Gas Natural Fenosa from Spain, ENEL and ENI of Italy, GasTerra of the Netherlands, Sweden's Vattenfall, Czech utility CEZ, Austria's OMV and Finland's Fortum. Its members account for more than half Europe's power generation, although it does not include one of the largest companies, EDF of France.

The Group stresses that its members invest substantially in renewables and merely seek their "integration" into energy markets in a less disruptive manner.

EON, for example, has invested close to €10bn in renewables since 2007 and is "greener day by day", a representative says. The company plans to shut 13 megawatts of conventional power generation between 2011 and 2015.

But climate campaigners are angered by the "sensational and alarmist claims" of the Magritte Group and portray it as a powerful lobby working to lock Europe into dependency on "dirty fuel imports". The Group has ignored the hard-headed business case for expanding renewables portfolios, they say.

Kaisa Kosonen, climate policy adviser at Greenpeace, says: "Energy companies are stuck in their old business model and have not sensed the way things are moving, or they have seen it but are refusing to accept it."

"Renewables are becoming increasingly attractive. A tipping point is approaching quite fast. It is interesting to observe utilities when they are discussing these issues – a big chunk do realise that change is essential."

Greenpeace says the growing conviction that business models must change in response to political realities and the increasing economic appeal of renewables, together with investor pressure, are pulling the companies in different directions.

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"These pressures will pull apart the Magritte Group," says György Dallos, senior adviser on global climate and energy at Greenpeace International. "We have been intensively in contact with them and we heard the whole thing is cracking; they have open differences."

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With the EU's 2030 climate targets now decided, differences in the strategies of big energy companies will come to the fore, says Mr Dallos. He says some Magritte Group members have told Greenpeace they agree with its critique of energy investment priorities. "It is becoming weaker, more companies are thinking about leaving," he says.

OMV of Austria says it recently followed Vattenfall and pulled out of the Magritte Group, though it declined to give an explanation.

Asked to respond to Greenpeace's criticisms, GDF Suez and Eni said they supported the Group's agreed position of backing renewable energy sources, investing in new technologies and defending the transition to a low carbon economy.

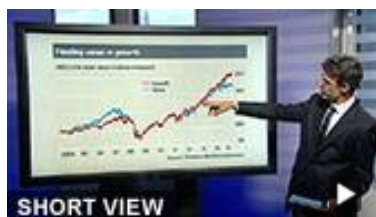
Ms Froning said: "It is clear that [Vattenfall] needs to embrace change, which is driven by climate concern, by public opinion and also by technological advancements. Trying to slow down developments would not be a good strategy for us."

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