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## **1. Introduction:**

The Energy Storage System Association (BVES) welcomes the proposal for “Guidelines on State aid for climate, environmental protection and energy 2022”. The document opens up opportunities for a more flexible policy of which new and growing markets in the energy field and industry could benefit. However, state aid should only be considered where a proven market failure exists and should only be the last resort. Energy Storage Policy across Europe has been characterised by disadvantageous regulations which hindered investment as well as growth. Energy Storage was hindered play its role in the various energy markets and to bring benefits to the energy system by ensuring security of supply.

## **2. EU ETS**

The EU ETS is a tested instruments for climate protection and ensures that the carbon reduction targets are achieved in the most cost-efficient way. The Fit for 55 agenda introduces a second ETS – for the transport and building sector – designed after the successful current ETS and will bring together both ETS in future. However, the current single European-wide carbon price gives a clear price signal to the energy sector and industry. Some Member States are introducing non-market measures to reduce GHG emissions. This results in a lower price for the allowances and is counterbalancing the effect of cost-efficient decarbonisation and is delaying the market and system integration of renewable energy. It is also more than likely that investments into technologies which could help to decarbonise the EU economy are delayed in the other EU Member States.

## **3. Carbon Contract for Difference**

Non-market mechanisms such as Carbon Contract for Difference (CCfD) and operational-costs subsidies may lead to a further distortion of market signals. It is still unclear how an efficient application of the Market Stability Reserve on the one hand, and other subsidies, for instance for operational costs are interacting. Before considering this policy tool, an Impact Assessment is needed to understand better how CCfD should be budgeted by governments, how they affect the EU ETS, Free Allowances, Market Stability Reserve and the potential CBAM.

Some Member States as well as the EU are indicating that the CCfDs could fasten the closing of the delta for sustainable hydrogen which will be needed, for instance, by the aluminium, steel and cement industry to decarbonise. The effect of introducing a CCfD should be assessed ex ante and should be limited only to a very few carbon-intensive sectors. It should be clear that the CCfD shall help to generate investments fast and should therefore be time limited. It is often argued that CCfDs will help to allow investments into new technologies and allow the scaling up of these technologies. However, the European Commission should assess to ascertain a market failure. In addition, it should have a clear understanding about the GHG abatement cost of any technology before introducing a new scheme which has not been tested.

#### **4. Competitive Bidding for aid allocation**

The Commission proposes the usage of competitive bidding for aid allocation. This approach would generate a more competitive environment and would allow the market to give a “reliable estimate of the minimum aid required”. The BVES welcomes the clear definition laid down in the five criteria mentioned in point 49. Firstly, the bidding process must be competitive. Secondly, the criteria are published sufficiently far in advance of the deadline for submitting applications. Thirdly, the budget or volume related to the bidding process is a binding constraint in that it can be expected that not all bidders will receive aid. Fourthly, the expected number of bidders is sufficient to ensure effective competition. Fifthly, ex post adjustments to the bidding process outcome shall be avoided. However, although bidding creates a new market it should be taken into consideration that any additional subsidy will reduce the costs for GHG allowances in the EU ETS and will shift the focus of investors from technologies which could help to reduce GHG emissions fast to investments that are guaranteeing an income over a long period of time. The additional risk of competitive bidding is that it does not take into account necessary system solutions but has only a single focus certain benchmarks as price per kilowatt, megawatt etc. As a result, the need for a flexible and decentralised as well as reliable energy system is not considered in a comprehensive way in the tendering process. Point 287 suggests that “Member States should identify the economic activities that will be developed as a result of the aid”. Furthermore, it suggests that aid should facilitate economic activities linked to storage. This suggestion is questionable. The storage market is thriving across the EU. What is needed is a review of the regulation at EU and Member State level as a coherent implementation. Investments into storage should be encouraged and not discouraged. Moreover, the EU Electricity Market Design Directive, the Renewable Energy Directive II and the RED II recast shall be implemented by the Member States to create a reliable legal framework for business.

#### **5. Hydrogen and other industrial gases**

Electrolyser requires electricity to generate Hydrogen. By this, they facilitate the decarbonisation of the European economy. It is therefore necessary to assess the whole value chain. Point 357 suggests to focus mainly on trade intensity instead of electricity intensity. Sustainable hydrogen will be traded but until now all evidence indicates that its exposure to international trade will be limited. Other industrial gases which are produced in the European mostly have a high electricity intensity. This should be considered when finalising the proposal to keep the sector competitive.

#### **6. Conclusion**

Reviewing the state aid regime of the European Union will create its momentum. There is the opportunity to create a smarter and better regulatory framework for functioning markets, for instance in the field of Energy Storage Policy. Energy Storage is the key to a decentralised, decarbonised and digital energy system with optimised grids, active prosumers and renewable energy supply which is integrated into the market and into the energy system

## **7. The BVES**

The Energy Storage System Association, Bundesverband Energiespeicher Systeme e.V represents members from the energy storage sector in Germany and across the EU. The BVES promotes all storage technologies and is engaged to create the right regulatory environment for the application of storage across all sectors.

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