

## **EDISON's contribution to the public consultation on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG)**

Edison welcomes the possibility to share its considerations on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG) that will apply from 1 January 2022. This process of revision is very timely as the role of public support will become increasingly more important in the years to come, in view of the allocation of EU recovery funds and implementation of National Recovery and Resilience Plans. Furthermore, updating the CEEAG is much needed to align state aid to the objectives of the Green Deal, and notably the commitment to cut greenhouse gas emissions by 55% by 2030 to reach carbon neutrality by 2050.

Cooperation between market players and governments is key to 'build back better' from the pandemic. To reach ever more ambitious climate targets, public investment needs to be able to mobilize substantial private investment through multipliers. In turn, private investors need certainties to craft resilient long-term decarbonization plans.

The scope of and conditions for aid must be inspired not only by environmental but also by social and economic objectives and aim to ensure accessible, secure and affordable energy supplies to all consumers as well as strengthen the competitiveness of European productive sectors, while promoting decarbonization. We believe that it has to maintain the principles of necessity, proportionality and effectiveness, be inspired to non-discrimination and technological neutrality, and be anchored to the principles established by article 107 and 108 of the TFEU.

We find that the revised text presented by the Commission contains important novelties that improve the overall effectiveness of the framework governing state aid. In particular, we welcome:

- the alignment of the guidelines to the objectives of the Green Deal
- the recognition and application of the principle of technology neutrality, and notably the fact that the revised CEEAG allow all Member States to support, when needed, all the technologies that can contribute to the achievement of their National Energy Climate Plans (NECPs), in accordance to the objectives of the Green Deal.
- the expansion of the CEEAG scope, with key technologies for achieving European climate ambitions being included (in particular renewable and low-carbon gases, storage solutions and other solutions guaranteeing energy system adequacy – a key issue in light of RES intermittency);
- greater flexibility in the assessment of individual aid measures and the simplification of a number of formal processes, such as notification;
- new safeguard measures aimed at better monitoring potential distortions of competition and at preserving market integrity;
- the principle of transparency strengthened through a better definition of public consultation processes by type of aid and the introduction of the general principle that aid should be awarded, net of derogations, through competitive bidding procedures open to different technologies;
- the fact that the CEEAG make a distinction between the most polluting fossil fuels and natural gas. This rests on a (more or less implicit) recognition of the key role of natural gas in the transition, particularly in some countries/sectors.

- the recognition of the principle according to which, when they are market-based, capacity markets can be considered markets of their own.

## Amendments and elements requiring further consideration

At the same time, we find that several elements require careful consideration. A number of amendments are in our view necessary to allow the revised CEEAG to effectively contribute to the EU's social, economic, and environmental objectives, and maximize the synergies between public and private investments that are needed to 'build back better' from the pandemic.

To this end, we would invite the Commission to consider the following amendments and elements requiring further consideration and/or clarifications:

- Section 2.1 (Scope and definitions):

We believe that aid schemes could be opened to cross-border participation for all projects in Member States that can contribute to the achievement of a common EU objective. The principles that apply to the cross-border opening of capacity mechanisms could be a starting point but will have to be adapted to take into account the different types of investment. Such an approach would genuinely promote competition and offer equal access to financial resources for Member States for environmental protection. Monitoring and rules could be further streamlined and be the same all over Europe, thus increasing the willingness of national authorities to cooperate.

- Paragraph 24 – we propose the following amendment:

Text proposed by the Commission	Amendment proposal
24. Member States must also describe if and how the aid will contribute to the achievement of objectives of Union climate policy , environmental policy and energy policy and more specifically, the expected benefits of the aid in terms of its material contribution to environmental protection, including climate change mitigation, or the efficient functioning of the internal energy market.	24. Member States must also describe if and how the aid will contribute to the achievement of objectives of Union climate policy , environmental policy and energy policy and more specifically, the expected benefits of the aid in terms of its material contribution to environmental protection, including climate change mitigation, <b>competitiveness, security of supply</b> or the efficient functioning of the internal energy market."
Justification	
It should be made explicit that the impact on competitiveness and security of supply should be taken into account by Member States when providing state aid, in addition to climate and environmental objectives	

- Paragraph 35 – we propose the following amendment:

Text proposed by the Commission	Amendment proposal
35. 'energy infrastructure' means any physical equipment or facility which is located within the Union or linking the Union to one or more third countries and falling under the following categories [...] (b) concerning gas: [...] (i) transmission and distribution pipelines for the transport of natural gas, bio gas and renewable gases of non-biological origin that form part of a network, excluding high-	35. 'energy infrastructure' means any physical equipment or facility which is located within the Union or linking the Union to one or more third countries and falling under the following categories [...] (b) concerning gas: [...] (i) transmission and distribution pipelines for the transport of natural gas, <b>low-carbon gases</b> , bio gas and renewable gases of non-biological origin that form part of a network,

pressure pipelines used for upstream distribution of natural gas [...] (v) smart gas grids, which means any of the following equipment or installation aiming at enabling and facilitating the integration of renewable and low-carbon gases (including biomethane or hydrogen) into the network: digital systems and components integrating information and communication technologies, control systems and sensor technologies to enable the interactive and intelligent monitoring, metering, quality control and management of gas production, transmission, distribution and consumption within a gas network. Furthermore, smart grids may also include equipment to enable reverse flows from the distribution to the transmission level and related necessary upgrades to the existing network;	<b>including blends thereof</b> , excluding high-pressure pipelines used for upstream distribution of natural gas [...] (v) smart gas grids, which means any of the following equipment or installation aiming at enabling and facilitating the integration of renewable and low-carbon gases (including biomethane, <b>synthetic gases</b> or hydrogen, <b>including blends of natural gas with other gases</b> ) into the network: digital systems and components integrating information and communication technologies, control systems and sensor technologies to enable the interactive and intelligent monitoring, metering, quality control and management of gas production, transmission, distribution and consumption within a gas network. Furthermore, smart grids may also include equipment to enable reverse flows from the distribution to the transmission level and related necessary upgrades to the existing network;
Justification	
We believe the definition of energy infrastructure should be broadened by considering blending activities of natural gas with renewable and low carbon gases, including hydrogen.	

- Paragraph 47 – we underline the following element that might require supplementary clarifications:

We would very much welcome the Commission to provide explanations and/or non-binding examples on how to “credibly” calculate the next extra cost/funding gap. Especially, we would welcome clarifications on how Member States could “credibly” assess the economic revenues and costs that the beneficiary of a project would “credibly” carry out in the absence of aid.

- Paragraph 69 – we propose the following amendment:

Text proposed by the Commission	Amendment proposal
69. In that balancing exercise, the Commission will pay particular attention to Article 3 of Regulation (EU) 2020/852 of the European Parliament and of the Council, including the “do not significant harm” principle, or other comparable methodologies. Furthermore, as part of the assessment of the negative effects on competition and trade, the Commission may take into account, where relevant, negative externalities of the aided activity where such externalities adversely affect competition and trade between Member States to an extent contrary to the common interest by creating or aggravating market inefficiencies including in particular those externalities that may hinder the achievement of climate objectives set under EU law.	69. In that balancing exercise, <del>the Commission will pay particular attention to Article 3 of Regulation (EU) 2020/852 of the European Parliament and of the Council, including the “do not significant harm” principle, or other comparable methodologies.</del> Furthermore, as part of the assessment of the negative effects on competition and trade, the Commission may take into account, where relevant, negative externalities of the aided activity where such externalities adversely affect competition and trade between Member States to an extent contrary to the common interest by creating or aggravating market inefficiencies including in particular those externalities that may hinder the achievement of climate objectives set under EU law.

#### Justification

We believe that links between the state aid framework and the EU taxonomy regulation, and the 'do not significant harm' principle, should be avoided as some delegated acts of the EU taxonomy are yet to be published and there is no experience yet in the application of the regulation itself.

- Paragraph 71 – we propose the following amendment:

Text proposed by the Commission	Amendment proposal
<p>71. Measures that directly or indirectly involve support to fossil fuels, in particular the most polluting fossil fuels, are unlikely to create positive environmental effects and often have important negative effects because they can increase the negative environmental externalities in the market. The same applies for measures involving new investments in natural gas, unless it is demonstrated that there is no lock-in effect. This will in principle render a positive balancing for such measures unlikely, as further explained in Chapter 4.</p>	<p><del>71. Measures that directly or indirectly involve support to fossil fuels, in particular the most polluting fossil fuels, are unlikely to create positive environmental effects and often have important negative effects because they can increase the negative environmental externalities in the market. The same applies for measures involving new investments in natural gas, unless it is demonstrated that there is no lock-in effect. This will in principle render a positive balancing for such measures unlikely, as further explained in Chapter 4.</del> <b>To balance the need to avoid carbon lock-in with their potential contribution to the phase-out of more polluting sources of energy, new investments in natural gas should be subject to demonstrating that there is no lock-in effect. Member States that set gas decarbonisation pathways (including e.g. targets for renewable and low-carbon gases) that are consistent with the Union's climate targets will be considered to have managed the risks of lock-in effects.</b></p>
<h4>Justification</h4> <p>For some regions, investments in natural gas infrastructure can allow for quick GHG emission reduction through the phase-out of more polluting sources such as coal, lignite and oil. In addition, investments in natural gas represent an enabling step towards achieving the goals of the European climate ambitions, as also defined in the various National Energy and Climate Plans (NECPs) presented by the Member States and by the conclusions of the European Council of 10-11 December 2020:</p> <p><i>(14) (...) The European Council acknowledges the need to ensure interconnections, energy security for all Member States, energy at a price that is affordable for households and companies, and to respect the right of the Member States to decide on their energy mix and to choose the most appropriate technologies to achieve collectively the 2030 climate target, including transitional technologies such as gas.</i></p> <p>Moreover, gas infrastructure would be able to take in blends of hydrogen and/or biomethane thereby ensuring that lock-in effects will be avoided.</p>	

- Section 4.1 Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy – additional consideration:

We very much welcome the recognition and application of the principle of technology neutrality in the frame of the CEEAG for firm flexible capacities (generation, storage, demand-side management), so as to be able to

respond effectively to an increasing share of renewable generation while ensuring security of supply. In order to ensure an adequate level of reliability, a variety of options and technologies are required (including the deployment and repowering of hydropower, reservoir and pumped storage, battery storage, demand side response, etc.). Nevertheless, additional renewable, firm and flexible capacity needs to be developed now to replace the most polluting fossil fuels and preserve security of supply as we move towards the 2050 climate neutrality target, but in some cases market failures are still preventing the necessary investments from materialising and representing reliable technological solutions. We would invite the Commission to also consider that in the frame of the CEEAG.

- Paragraph 107 – we propose the following amendment:

Text proposed by the Commission	Amendment proposal
<p>107. To avoid undermining the objective of the measure or other Union environmental protection objectives, incentives must not be provided for the generation of energy that would displace less polluting forms of energy. For example, where cogeneration based on non-renewable sources is supported, or where biomass is supported, they must not receive incentives to generate electricity or heat at times when this would mean zero air pollution renewable energy sources would be curtailed.</p>	<p>107. To avoid undermining the objective of the measure or other Union environmental protection objectives, incentives must not be provided for the generation of energy that would <b>directly</b> displace less polluting forms of energy. <del>For example, where cogeneration based on non-renewable sources is supported, or where biomass is supported, they must not receive incentives to generate electricity or heat at times when this would mean zero air pollution renewable energy sources would be curtailed.</del> <b>Alternatively, investments in storage technologies such as electrolyzers can ensure minimal loss of renewable energy and help avoid disincentivising the efficient generation of power and heat.</b></p>
<p style="text-align: center;">Justification</p> <p>A further clarification is needed to avoid uncertainty and excessive burdens arising from the difficulty of demonstrating the occurrence of displacement. Rather than denying incentives (punitive approach) it is more useful to proactively facilitate instruments that would limit curtailment (such as electrolyzers). The need for curtailment responds, in fact, to more complex logics (network saturation, infrastructure development, electricity market design, local congestion, demand trends, etc.) and should not have any impact on the provision of incentives.</p>	

- Section 4.2 Aid for the improvement of the energy and environmental performance of buildings

In the text, it seems to be only required to induce reductions of primary energy demand (energy efficiency perspective). However, to ensure that building renovation measures contribute to reducing the emissions originating from buildings, they must be combined with measures to drive the deployment of decentralized energy resources (DERs) such as solar and storage and facilitate buildings becoming active energy producers. Not including an adequate consideration of DERs is a missed opportunity to consider the potential contribution of buildings to the decarbonisation of the energy system. It should be allowed to couple energy performance of buildings with aid to storage systems that could be used to provide needed demand-side flexibility services (in addition to self-consumption). Storage systems have a value that goes well beyond the only support to self-consumption.

Moreover, given the complexity of decarbonising a building stock that is very heterogeneous, aid to support integrated building renovations should be adapted to the specificities of building sector segments and income levels of the building owners or tenants. Adapting aid schemes to multi-apartment buildings is extremely important to ensure they overcome split incentive barriers.

Finally, given that residential buildings face important barriers to access sufficient finance for renovations and given the Renovation Wave Strategy established as a priority to tackle energy poverty and worst performing buildings, Member States should be able to provide full financing to vulnerable households to avoid negative distributional effects stemming from high upfront investment requirements. We therefore recommend that aid intensity for small scale renovations should be 100% of the eligible costs, particularly for the residential building sector.

- Paragraph 161 – we propose the following amendment:

Text proposed by the Commission	Amendment proposal
161. The Commission considers that certain aid measures have negative effects on competition and trade that are unlikely to be offset. In particular, measures that incentivise new investments in natural gas-fuelled (including CNG and LNG) transport vehicles may lead to a reduction in greenhouse gas emissions and other pollutants in the short run but aggravate negative environmental externalities in the longer run, compared to alternative investments.	<del>161. The Commission considers that certain aid measures have negative effects on competition and trade that are unlikely to be offset. In particular, measures that incentivise new investments in natural gas-fuelled (including CNG and LNG) transport vehicles may lead to a reduction in greenhouse gas emissions and other pollutants in the short run but aggravate negative environmental externalities in the longer run, compared to alternative investments.</del>
<p style="text-align: center;">Justification</p> <p>There is no direct correlation between negative effects on competition and trade and measures incentivising the use of CNG and LNG. We feel that the wording chosen by the Commission is excessively negative towards LNG which, especially in the hard-to-abate sectors, is a ready and viable option to reduce emissions of CO<sub>2</sub> and other pollutants (SOx and NOx).</p> <p>We strongly believe that aid to LNG does not inhibit the development of cleaner alternatives. On the contrary, the rollout of LNG vessels and infrastructure – in addition to delivering an immediate reduction in GHG/pollutants emissions – paves the way for the use of gaseous fuels in a sector that has so far been dominated by oil products. Gaseous fuels can and in fact will be progressively decarbonised.</p> <p>We believe that the derogation provided in paragraph 162 should be the general approach to LNG. The proposed FuelEU Maritime Regulation reflects the awareness that LNG can play an important transitional role in reducing emissions in the shipping sector.</p>	

- Paragraph 162 – we propose the following amendment:

Text proposed by the Commission	Amendment proposal
162. Aid for the acquisition or leasing of CNG and LNG vehicles may be regarded as not creating long-term lock-in effects and not displacing investments into cleaner technologies if, at the moment when the Member State notifies the Commission of its plans to implement the aid measure or when the aid	162. Aid for the acquisition or leasing of CNG and LNG vehicles may be regarded as not creating long-term lock-in effects and not displacing investments into cleaner technologies if, at the moment when the Member State notifies the Commission of its plans to implement the aid measure or when the aid

measure is implemented, the Member State demonstrates that cleaner alternatives are not readily available on the market and are not expected to be available in the short term <sup>71</sup> . The aid may also be regarded as not having lock-in effects or displacing investments into cleaner technologies where the Member State commits to ensure that those vehicles would be operated using blending of biogas or renewable gaseous transport fuels of non- biological origin (minimum 20%).	measure is implemented, the Member State demonstrates that cleaner alternatives are not readily available on the market and are not expected to be available in the short term <sup>71</sup> . The aid may also be regarded as not having lock-in effects or displacing investments into cleaner technologies where the Member State commits to ensure that those vehicles would be operated using blending of biogas or renewable <b>and low-carbon</b> gaseous transport fuels of non-biological origin (minimum 20%).
Justification	
We believe that broadening the scope of the paragraph also to low-carbon gaseous transport fuels, where CCS/CCU is used in production of such fuels or when such fuels are produced via methane pyrolysis, would better represent the current need of the sector in a transitional perspective and without creating any lock-in effect.	

- Paragraph 184 – we propose the following amendment:

Text proposed by the Commission	Amendment proposal
184. Aid for the deployment or upgrade of refuelling infrastructure may unduly distort competition when it displaces investments into cleaner alternatives that are already available on the market, or where it locks in certain technologies, hampering the wider development of a market for and the use of cleaner technologies. Therefore, in those cases, the Commission considers that the negative effects on competition of aid for the deployment or upgrade of refuelling infrastructure supplying natural gas-based fuels such as CNG and LNG are unlikely to be offset.	<del>184. Aid for the deployment or upgrade of refuelling infrastructure may unduly distort competition when it displaces investments into cleaner alternatives that are already available on the market, or where it locks in certain technologies, hampering the wider development of a market for and the use of cleaner technologies. Therefore, in those cases, the Commission considers that the negative effects on competition of aid for the deployment or upgrade of refuelling infrastructure supplying natural gas-based fuels such as CNG and LNG are unlikely to be offset.</del>
Justification	
Same considerations as paragraph 161.	
We believe that the derogation provided in paragraph 185 should be the general approach to LNG refuelling infrastructures.	

- Paragraph 326 – additional consideration:

We believe that gas-fired capacity (running on renewable/low-carbon gases in the long-term) could be instrumental to guaranteeing security of supply, by allowing to cope with an increased penetration of intermittent renewable generation. This is even more important if the level of electrification is higher than today. We believe that, in the evaluation between positive and negative effects of gas powered generation, the – cost-effective decarbonization, security of supply and cost for consumers – should always be taken into consideration.



- Paragraph 333 – additional consideration:

In conditions of natural monopoly the exemption from the State aid rules should not apply. Some players have a regulated incentive environment that gives them a competitive advantage over third parties not operating in conditions of natural monopoly. Risk of cross-subsidization should be avoided. We believe that the argument presented in paragraph 333 should be applied to all network infrastructures and, therefore, extended to other paragraphs, such as paragraph 348 (related to heating networks).

- Paragraph 342 – we propose the following amendment:

Text proposed by the Commission	Amendment proposal
342. Such aid measures typically cover the construction or upgrade of the generation unit to use renewable energy, waste heat, or highly-efficient cogeneration including thermal storage solutions, or the upgrade of the distribution network to reduce losses and increase efficiency, including through smart and digital solutions.	342. Such aid measures typically cover the construction or upgrade of the generation unit to use renewable <b>and low-carbon</b> energy, waste heat, or highly-efficient cogeneration including thermal storage solutions, or the upgrade of the distribution network to reduce losses and increase efficiency, including through smart and digital solutions.
Justification	
We believe that given the maturity of the technologies, a further reference to low-carbon energy as a transitional solution might be necessary in order to better support the decarbonisation of district heating and cooling.	

- Paragraph 348 – we propose the following amendment:

Text proposed by the Commission	Amendment proposal
348. As regards the construction or upgrade of district heating generation installations, measures that incentivise new investments in energy based on natural gas may reduce greenhouse gas emissions in the short run but aggravate negative environmental externalities in the longer run, compared to alternative investments. For those investments in natural gas to be seen as having positive environmental effects, Member States must explain how they will ensure that the investment contributes to achieving the Union's 2030 climate target and 2050 climate neutrality target and, in particular, how a lock-in of the gas-fired energy generation or gas-fired production equipment will be avoided. For example, this may include binding commitments by/from the beneficiary to implement CCS/CCU or substitute natural gas by renewable or low carbon gas or to close the plant on a timeline consistent with the Union's climate targets.	348. As regards the construction or upgrade of district heating generation installations, measures that incentivise new investments in energy based on natural gas may reduce greenhouse gas emissions in the short run but aggravate negative environmental externalities in the longer run, compared to alternative investments. For those investments in natural gas to be seen as having positive environmental effects, Member States must explain how they will ensure that the investment contributes to achieving the Union's 2030 climate target and 2050 climate neutrality target and, in particular, how a lock-in of the gas-fired energy generation or gas-fired production equipment will be avoided. For example, this may include <del>binding</del> commitments by/from the beneficiary to implement CCS/CCU or substitute natural gas by renewable or low carbon gas or to close the plant on a timeline consistent with the Union's climate targets.
Justification	



Given the current status of the decarbonisation process of the sector and the technological maturity, we do not believe that 'binding commitments' would be of support. Therefore, we would invite the Commission to consider the removal of the reference to 'binding commitments' from the paragraph.

- Section 4.11 (Aid in the form of reductions from electricity levies for energy-intensive users):

We believe that each energy vector must bear the cost of its own decarbonisation. Each energy carrier's bill shall integrate only costs, charges and levies linked to the production, transport and retail of that specific energy carrier. A cross subsidisation across energy carriers or sectors would therefore create market distortions. By allocating the relevant energy system costs (including incentives and subsidies) to the respective energy carrier, adequate price signals are given to energy users that can thereby make an informed choice for the energy option that fits their preferences and requirements.