CATHODE
75 avenue des Champs Elysées - F 75008 Paris
info@cathode.eu

Contribution to the Public consultation from the European Commission on the Competition Policy supporting the European Green Deal

National targets for climate justify state aid to reach sustainable market-based growth

This contribution focuses on state aid (part 1), based on our experience as companies involved in innovations regarding buildings and making them actively contributing to the electric system.

State aids should be used to foster green solutions, such as demand side flexibility management (particularly demand response operated via aggregators), as per the following two criteria:

1) **at least up to the targets set in the national energy and climate plans** (or upgraded targets as per the EU Green Deal if applicable);
2) **until a sustainable market design has come into force in the Member state**, making it economically viable to operate in the relevant market (for instance, regarding demand response, in all electricity markets, as provided by the Clean energy package, without regulatory barriers impeding a proper market-based activity).

These criteria can be illustrated in the case of demand response which is a key enabler of the energy transition to be operated via the electricity markets:

- As highlighted in the recent EU-wide assessment of the National Energy and Climate Plans, some type of investments developed fairly well (such as in renewable energies), while some sectors are still lagging behind (such as demand response aggregation, which is necessary to use renewables efficiently, and avoid system costs). Hence the latter should be entitled to specific support, so as to catch up. This is the reason for criteria 1) above.
- State aid may be useful to boost the deployment of innovative solutions, and they may be absolutely necessary to ensure this occurs fast enough to meet the climate goals. Yet the goal should be to make sure these solutions find their space in a market-based approach. However, it may take time for the member state to establish the appropriate regulatory framework that will be necessary to allow a proper market access so that the business can develop in a sustainable way. As long as this would not be in place, it may be necessary to maintain some kind of state aid to make sure initial investments keep running and additional ones are made, if required to keep on track with climate goals and policies.

For instance, in the case of demand side response (DR), the goal should be to ensure DR participation in all electricity markets as an alternative to traditional generation. Yet this may take time and not be sufficient to trigger investments quick enough to reach climate goals; hence state aid programs may be appropriate to ensure investments are made in a timely manner.

Then, such programs should remain in force as long as the relevant goals are not reached. They should also remain in force until a sound regulatory framework is in place, thus ensuring that barriers are removed and a viable business case is possible for independent demand response aggregation to operate. Barriers here include various technical provisions and inappropriate regulatory requirements, but most of all economical requirements such as a biased calculation of compensation member state may wish to provide electricity suppliers, or an inappropriate sharing of its costs among market parties, so that it would create a barrier to demand response participation in the market (cf. article 17 of the Directive 2019/944 on electricity market design). While such barriers should be removed as soon as possible, until they are, state aids may need to be implemented so as not to delay the achievement of climate goals, and to avoid system reliability issues and/or costs related to the growing share of intermittent renewable generation.