

E.ON response to the call for contributions on Competition Policy supporting the Green Deal

Part 1: State aid control

As input to the debate on how State aid control and environmental and climate policies work together – and how they could do that even better, please consider the following questions:

1. What are the main changes you would like to see in the current State aid rulebook to make sure it fully supports the Green Deal? Where possible, please provide examples where you consider that current State aid rules do not sufficiently support the greening of the economy and/or where current State aid rules enable support that runs counter to environmental objectives.

E.ON response

E.ON welcomes the EU Commission's public consultation on Competition Policy review to support the Green Deal. We believe that current state aid provisions need to be revised in order to reach Europe's objective of becoming the first climate neutral continent by 2050. In particular the Energy and Environmental Protection Guidelines (EEAG) and the General Block Exemption Regulation (GBER) should be reformed jointly to open support to new technologies and enable energy system integration required to accelerate decarbonization by 2030.

This means enabling electrification to the extent that is economical and technically feasible, decarbonize the gas mix in order to provide low-carbon energy supply to hard-to-abate industrial sectors and transport, support energy efficiency on the demand side and decarbonize heating supply, promote innovative projects that enable sector integration and make the energy system more flexible.

These changes should be timely to ensure Next Generation EU (NGEU) funds will deliver a green recovery. Both the Recovery and Resilience Facility Regulation and the Commission guidance to Member States provide that when drafting the Recovery Plans, national authorities must ensure compliance of the funding mechanisms with state aid guidelines.

In view of Next Generation EU spending, we recommend that a set of dedicated guidelines be issued, to cover all the investment areas considered by the European Commission as "flagships" under the Annual Sustainable Growth Strategy, which serves as guidance for Member states when drafting the Recovery Plans.

In view of the regular review process of state aid guidelines, we believe that GBER should be expanded in complementarity with EEAG. Competitive bidding should be mainstreamed to ensure highest carbon abatement is obtained at least societal cost.

Recommendations for state aid review and Temporary Framework/guidelines for NGEU

a. Enable electrification: relieve the electricity price from levies and taxes

Electrification of key economic sectors like transport, buildings and industry to the maximum extent possible is a clear pathway to achieve emission net-neutrality. Higher shares of renewables (RES) are making electricity greener and the energy carrier of choice for consumers. But in order to send electricity consumers the right *price signals* to switch from fossil fuels, we have to make sure that the electricity price is not burdened with levies and excessive taxation. Therefore E.ON advocates for relieving the electricity price. This will **foster the competitiveness of energy-intensive European industry**, by covering the price differential compared with non-EU regions, and **alleviate the social aspects**, making electricity more affordable for all consumers.

The EEAG can contribute to this objective two complementary levers; (i) ceasing to finance RES through levies on the electricity price; and (ii) allowing a tax reduction on electricity below the minimum threshold in the Energy Taxation Directive.

Concretely, the EEAG or GBER **should authorize support for renewable generation, or any other low-carbon technology (e.g. cogeneration), with a clear conditionality that the support scheme are not be passed through to the final electricity customer.**

As far as the fiscal burden on electricity, it would be preferable that the Electricity Taxation Directive allows for zero tax, but if the revision fails to address this than **tax exemptions could be authorized as state aid for certain uses (e.g. electricity used in electrolyzers).**

b. Expand the definition of Energy infrastructure in Article 48 of GBER

The current definition of energy infrastructure should be expanded to include: EV chargers, gas grids retrofits in order for them to become hydrogen-ready, storage options and investments in demand-side management solutions. E.ON advocates for adapting the existing provisions in a way that they recognize the flexibility potential provided by thermal storage and connected power-to-heat and heat pump technologies. Such an inclusive definition would reflect better the system-approach, rather than one based on silos.

c. Widen the scope for granting state aid for energy efficiency and improve funding conditions

The EEAG and the GBER currently allow only building owners and tenants to receive State aid for energy efficiency in buildings. However, in order to significantly increase energy efficiency in buildings, **companies that provide energy efficiency solutions are best placed to accelerate the implementation of projects and should be eligible.** In fact, installers are able to offer bundled solutions, including financing options, more widely and reach more building owners and tenants, rather than relying on the individual initiatives.

More favorable funding conditions for district heating and cooling:

- **Remove claw-back for heating solutions in GBER**

In recognition of the role of heating and cooling to for sector integration, and given the high-upfront CapEx requirement and long paypack profile, **E.ON proposes the elimination of claw-back of aid to accelerate investments.**

Investment aid supports the market uptake of key CapEx-intensive technologies and measures, especially the renewable heat generation (e.g. via geothermal) and transformation of district heating to low temperature networks. E.ON advocates for removing the claw-back and ex-ante deduction of operational profit for large and long-term projects (grids, district heating solutions) to enable deployment.

The "claw-back" requirement that aid must be repaid when the operating profits exceed the eligible costs (which is equivalent to 30% of total investment costs) means that the grant of aid per definition will function similarly to a loan. If the project has a reasonable rate of return, the operating profit will very fast exceed such a small share of the investment costs (of 30%). Upon repayment of the aid, the rate of return will therefore be so low that the project is unattractive. The rule does not incentivize investors to undertake the project. Therefore, the claw-back mechanism should be removed from the GBER.

- **The EEAG and the GBER should allow for a higher aid intensity.** While the EEAG and the GBER authorize aid for district heating and cooling, the EEAG and the GBER should more explicitly acknowledge the key future role of low-ex and energy networks to harvest low-temperature renewable and waste heat sources, as well as potential balancing role in the energy system and allow a potential "aid premium".

2. If you consider that lower levels of State aid, or fewer State aid measures, should be approved for activities with a negative environmental impact, what are your ideas for how that should be done? a. For projects that have a negative environmental impact, what ways are there for Member States or the beneficiary to mitigate the negative effects? (For instance: if a broadband/railway investment could impact biodiversity, how could it be ensured that such biodiversity is preserved during the works; or if a hydro power plant would put fish populations at risk, how could fish be protected?)

3. If you consider that more State aid to support environmental objectives should be allowed, what are your ideas on how that should be done?

- a. **Should this take the form of allowing more aid (or aid on easier terms) for environmentally beneficial projects than for comparable projects which do not bring the same benefits ("green bonus")? If so, how should this green bonus be defined?**

E.ON response

Firstly, environmentally beneficial and transformational activities i.e. that enable energy system integration should be included in GBER.

Better funding conditions, in particular for high-upfront investment such district heating, electricity and gas infrastructure, fast-chargers, PtG, PtH etc, should be introduced in GBER and EEAG. These conditions should include a higher aid intensity and the removal of long-term limitation of profit (like the "claw-back"). [see answer to question 1]

b. Which criteria should inform the assessment of a green bonus? Could you give concrete examples where, in your view, a green bonus would be justified, compared to examples where it would not be justified? Please provide reasons explaining your choice.

E.ON response

Emissions reduction is a suitable criterion for specific areas of the value chain such as production (electricity generation, heating, PtG, PtH) or consumption (energy efficiency investments). However, when it comes to the role of the Distribution System Operator enabling the energy transition, the applicability is limited because the effects of energy infrastructure on direct emissions exists but is less than the indirect positive impact at system level. Potential criteria for infrastructure could be added and if fulfilled mandate a "green bonus", such as: integration of renewable generation or realization of smart energy system integration (electricity, gas, hydrogen).

4. How should we define positive environmental benefits? a. Should it be by reference to the EU taxonomy³ and, if yes, should it be by reference to all sustainability criteria of the EU taxonomy? Or would any kind of environmental benefit be sufficient?

E.ON response

As the technical criteria of EU Taxonomy still need to be clarified and are under legislative procedure, it is very early to tell whether mainstreaming Taxonomy would help or harm decarbonization objectives. Therefore, a clear position on whether they should serve to define positive environmental benefits cannot be reliably formulated at this stage.