POSITION PAPER

Comments on cost assumptions and modeling approach
Answer to the public Consultation IPCEI

EDF supports the will of the European Commission to rely on IPCEIs to serve European strategies and objectives, notably for the implementation of those to become climate neutral by 2050. State aid has an important role to play for this purpose. Public funding makes it possible to participate in the development of strategic value chain including technologies that would not be possible without market support.

EDF also agrees that the objectives explicitly mentioned in the draft communication are not exclusive of any other. In that respect, the 2018 communication "*A Clean Planet for all – A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy*" should also be quoted as it states that by 2050, renewables plus nuclear "will be the backbone of a carbon-free European power system".

In addition, to ensure that environment and climate objectives are met, assessments should be science-based and rely on objective criteria such as CO2 full lifecycle assessment have to be adopted in order to assess all low-carbon technologies on an equal footing.

General cumulative criteria

Reference to market failure

The draft communication states in paragraph 16 that a project will have to "demonstrate that it is designed to overcome important market or systemic failures". In our views, it is less the project that needs to be justified by a market failure, but rather the need for the aid.

Minimum number of Member states

EDF considers that IPCEIs projects have to be in line with European objectives. However, such an objective is not necessarily pursued by a significant number of states. This is why it is important to adopt a pragmatic approach, without setting a minimum number a priori, which could prove to be an obstacle to the development of projects. Paragraph 17 of the communication sets that an IPCEI project must involve at least *four* Member States. Such a threshold seems likely to unduly disqualify projects that could nevertheless serve European energy and/or environmental strategies.

Positive spillover of the project

EDF is convinced that projects under IPCEI must serve the economic, climate and strategic interests of the European Union. They should also be worthy of consideration in terms of their social impact. In particular, the creation of non-relocatable jobs could be taken into account.

Articulation with other European regulations

It is important that state aid rules are transparent, predictable and non-discriminatory. The obligation under point 21 to respect the 'do not significantly harm' principle raises questions, particularly of a legal nature, which call for caution. This principle, which is at the heart of the taxonomy regulation, is still under discussion, at least for some economic activities, in particular because it leads to requirements that go beyond the sectoral directives. Although the need for minimal harmonization

between the EU taxonomy framework and state aid rules would seem appropriate, the uncertainty about indirect effects of such initiative on the public's action to allocate compliant state aid calls for further impact assessment.

General positive indicators

Taxonomy framework applies primarily to private investors, thus there is no direct link with the state aid framework applicable to energy and environment. As said regarding the DNSH principle, reference to EU taxonomy's criteria raises the question of policy consistency. Given the fact that the taxonomy is still under development, and no final decision has been taken yet regarding several technologies, it would seem premature to establish a connection between the two mechanisms, creating unfair competition between technologies. The indecision on different technologies, e.g. nuclear, would allow other technologies to benefit from an earlier start for new IPCEIs.

Regarding specifically energy projects, the draft communication sets that, to the extent that they are not R&D&I projects or projects comprising of first industrial deployment, they must be of great importance for energy, including security of supply. EDF considers that security of supply has to consider safe, controllable and decarbonized production assets.

Eligible costs

Some OPEX can be covered, but only in narrow circumstances and if they strongly relate to R&D&I activities, and for a quite limited period of time when referring to First Industrial Deployment.

EDF considers that costs considered as eligible by IPCEIs should cover operational expenditures when it allows to compensate an economic disadvantage (e.g. the differential between the price of gas and the price of electricity which integrates the EU ETS price and therefore the CO2 impact of generation). As an example, decarbonized hydrogen produced through water electrolysis is showing higher operational costs than steam methane reformers. In an early phase of market development, it is important to define a supportive framework which include financial support during operation phase. Including provisions adapted to such key technologies in IPCEIs appears to be necessary to fulfill EU climate objectives.

More generally, IPCEI support should be adapted to the market failure identified.