

## **Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme post-2012 (EU ETS State Aid Guidelines)**

### **Enel Group Contribution to HT.582**

Enel Group, as a multinational energy company headquartered in Italy, strongly committed to decarbonising the energy sector, welcomes the new revised proposal of the EU ETS State aid Guidelines, which is subject to public consultation for adoption ahead of the next trading period starting on 1 January 2021.

To reach the ambitious EU climate neutrality at least by 2050, we are all aware about the significant costs, in terms of investments and socio-economic changes to be implemented, and the key role that State aid will play as a pivotal tool to incentivize in a cost-effective way the policy shift towards a green and sustainable economy.

As a principle, we believe that the cost of energy supplied and used in the EU should reflect the true costs to the climate. However, a just and fair transition leaving no-one behind should be a guiding principle and include focused strategies aimed at maintaining the EU's competitiveness and minimizing distributional impacts.

In this context, the draft EU ETS State aid Guidelines aims at reducing carbon leakage risk related to indirect ETS costs, and incentivising the modernisation of production processes, which needs to be designed to create a virtuous circle in the energy market sector, involving all the essential elements required to decarbonise at national and European level.

We welcome these new draft State aid rules helping energy-intensive industries to cope with higher electricity costs from the EU's emissions trading system so as to guarantee a level playing field limiting the competitive distortion vis-à-vis non-EU countries and among Member States which already provided indirect costs compensations to their electro-intensive industries, in one way or another, and to promote that energy-intensive industries shift towards a carbon-free footprint of their electricity consumption through renewable energy or a carbon-free power generation.

Under the draft of EU ETS Guidelines, the formula used to determine the "CO<sub>2</sub> emission factor", namely the weighted average of the CO<sub>2</sub> intensity of electricity produced from fossil fuels (i.e. CO<sub>2</sub> equivalent emission data of the energy industry divided by the gross electricity generation based on fossil fuels in TWh) in different geographic areas, risks introducing undue distortions of competition and trade in the internal market, penalising electro intensive industries operating in "early mover countries" and favouring their competitors operating in other Member States. The proposed formula distorts the calculation of the amount of indirect costs because of the elements taken into account in the formula, including the use of a regional (national) CO<sub>2</sub> emission factor.

The proposed formula overlooks that a lower carbon intensity of the electricity sector in one country does not translate directly into lower electricity prices in the country and into lower indirect costs for electro intensive industries. Indirect costs depend on electricity prices that are defined by the marginal technology and not necessarily on the carbon intensity of the electricity system. Actually, in countries with a high penetration of renewables, but in which carbon-intensive generation continues to be the marginal technology, the proposed formula will involve underestimating the carbon price impact on electricity costs. In such a case, being a company established in an “early mover country” means being in a negative position compared to companies operating in other Member States, which have a slower pace of progress toward decarbonisation. The result of the use of this formula will likely increase the risk of carbon leakage within EU and, as a consequence, the risk of distortions of competition within the internal market. Nevertheless, we acknowledge that the risk of indirect costs compensation could hinder the expected extensive renewable power deployment, discouraging the decarbonization of the power mix. The proposed formula is likely to run counter the three main objectives of the ETS system, namely (i) minimizing the risk of carbon leakage, (ii) achieving decarbonization, and (iii) avoiding distortions of competition.

For these reasons, a revised methodology should be defined to go beyond the weighted average of the CO<sub>2</sub> intensity of electricity produced from fossil fuels and should take into account the impact of the marginal technology in the definition of prices at national level. This will mitigate the deviation of the compensation from the indirect costs actually incurred by electro intensive industries.

In case of difficulties in implementing a formula taking into account the marginal price, using as reference a wider geographical area or/and a corrective factor that takes into account the carbonisation level across EU for the calculation should be considered to avoid introducing distortions that favour the competitive position of energy intensive industries in certain Member States. . Even if a revised formula may not avoid a deviation from actual indirect costs, it should minimise the risk that energy intensive industries in different Member States receive different levels of compensation while providing adequate incentives for decarbonization in addition to the incentives also provided through the carbon price applied to electricity generation activities and supporting the achievement of EU GHG emission reduction targets.

Moreover, although the effects on competitiveness are the same, while the EU ETS Directive establishes as a principle the full compensation for direct costs of sectors in risk of carbon leakage (with actual level of compensation mitigated by efficiency factors and cross-sector reduction factors), for indirect costs the aid intensity is limited to 75%. From our point of view, this difference in treatment is inconsistent, being full compensation of indirect costs appropriate in order to avoid carbon leakage, this 25% reduction appears not justified in view of incentives already in place to increase energy efficiency. First, the use of electricity consumption efficiency benchmarks ensures that support to inefficient production processes remains limited and maintains the incentive for dissemination of

most energy-efficient technologies. Additionally and unlike the situation during Phase III of the EU-ETS, the significant CO<sub>2</sub> price increase and the expectation of greater increases in the coming years, should encourage more efficient and decarbonized consumption.

We therefore welcome the insights provided by this draft EU ETS State aid Guidelines, especially supporting an energy system based on renewables energy as it is the most efficient and cost competitive path to achieve decarbonization across the economy, while maintaining the European competitiveness of its industry with comparable systems among Member States.