

Directorate-General for Competition, Unit B3

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## **Vattenfall's response to the European Commission's consultation on the Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post 2021**

Vattenfall welcomes the opportunity to provide input to the draft EU ETS State Aid Guidelines. We are highly in favour of the proposed changes of point 11 of section 1.1. of the *Communication of the European Commission Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme post-2012* (hereafter current ETS State Aid Guidelines). Compared to the current ETS State Aid Guidelines, the draft ETS State Aid Guidelines solve the ambiguities deriving from point 11 of the current ETS State Aid Guidelines. A number of Member States have interpreted this point of the current ETS State Aid Guidelines and in particular the sentence "in case of electricity supply contracts that do not include any CO<sub>2</sub> costs, no State aid will be granted" in a way that it creates significant barriers to the deployment of renewable Power Purchase Agreements (hereafter PPAs) in those countries.

In Germany the interpretation of the current ETS State Aid Guidelines allows energy intensive industries sourcing electricity from conventional power generation to get compensation for the indirect EU ETS costs. On the contrary, companies sourcing renewable electricity are not entitled to any compensation. This interpretation might derive from the wrong assumption that the price of corporate renewable PPAs is independent from the CO<sub>2</sub> price levels, whereas in reality the price formation mechanism of these PPAs depends on the wholesale electricity price levels - whose formation is closely linked to factors such as the carbon prices.

As a consequence, companies in Germany are currently discouraged from sourcing renewable electricity as this electricity would cost "substantially more" than the conventional one and are effectively deprived from a cost-effective solution to decarbonize their electricity supply. This distorts competition by restricting market options for sellers and buyers.

Corporate renewable PPAs should be seen as an important instrument for the energy transition whose uptake should be facilitated by Member States, following the direction of the 2018 Renewable Energy Directive and Governance Regulation. Adding renewable PPAs to the conditionality to receive state aid, the draft ETS State Aid Guidelines are setting steps in the right direction clarifying that indirect cost compensation is compatible with signing these contracts.

Finally, ETS State Aid Guidelines should safeguard an integrated approach to consistency, stability and predictability while ensuring a cost-effective decarbonisation of the economy with no competition distortions in the internal market along the whole value chain. The proposal of the European Commission to reduce the number of sectors eligible for cost compensation, exposed to a significant risk of indirect carbon leakage, might have an impact on the competitiveness of certain raw material, for instance iron ore mining. This might also have an effect on investment decisions in the area of innovation, such as the *HYBRIT fossil-free steel* project, Vattenfall is a shareholder of.