



smartEn
Smart Energy Europe

A new State aid for a cost-efficient clean energy transition

smartEn reply to the EEAG public consultation

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Introduction

Developing demand-side flexibility across Europe can dramatically reduce total energy costs and build Europe's smart energy leadership. It will contribute to a more cost-efficient system management and achievement of climate neutrality. Demand-side flexibility is provided by decentralised energy resources as demand response, distributed energy storage and variable generation capacities.

As estimated by the European Commission, at EU level, the activation of demand-side flexibility at distribution level would save up to €5 billion per year up to 2030 due to avoided investments in unnecessary grid reinforcements, back-up generation and fuel costs.¹

This is possible if every final customer has the right to participate in the clean energy transition and is rewarded for adjusting its energy consumption/production in response to prices and incentives received from the system.

To contribute to the Energy Union and support the achievement of the objectives of the European Green Deal (EGD), the value of demand-side flexibility should be taken into account in the revision of the Guidelines on State aid for Environmental protection and Energy 2014-2020 (EEAG) and dedicated support might be provided, notably when barriers exist to the development and market access of carbon-friendly solutions as energy storage, demand response and distributed renewable generation.

smartEn welcomes the intention of DG COMP to evolve from a silo approach based on 14 different policy instruments to a broader horizontal structure to reflect the new energy system integration approach. Within this renewed perspective, we recommend shaping the revised EEAG around the following principles:

- Ensure consistency with the “Do no harm principle”

The EGD proposed by President Von der Leyen's Commission was built on the solid foundations of the Clean Energy for All Europeans (CE4AE) package to support the transition to climate neutrality.

To ensure consistency between the CE4AL package, the EGD and the new EEAG, we recommend to:

- Ensure that State aid respects the “Do no harm” principle to exclude all support to any environmentally harmful activities. This should eliminate the risk of greenwashing for beneficiaries whose overall climate benefits they provide are very low,
- Shape a future-looking State aid regime. The respect of the “Do no harm” principle would avoid the revised EEAG to become obsolete rapidly and set a flexible, inclusive framework for innovative and sustainable solutions. The green and digital transition opens to immense innovation opportunities and disruptive business models that could contribute to the achievement of climate neutrality in the most cost-effective way. Such innovative and maturing solutions should be eligible for State aid support under certain circumstances to allow them to become fully competitive with more mature sustainable solutions.

¹ https://ec.europa.eu/commission/commissioners/2019-2024/simson/announcements/speech-commissioner-simson-smart-energy-europe-smarten-online-symposium_en

- **Strengthen the cost-effectiveness criteria to support system efficiency**

The Energy Efficiency First principle at system level should be applied for both the selection of projects, sectors and technologies to benefit of State aid and for the allocation of public resources.

Although some sectors, technologies and projects could benefit from State aid support because they are sustainable (i.e. allowed by the “Do no harm” principle), the risk is to waste valuable tax-payers’ money in investments that do not help achieving climate neutrality cost-effectively.

All decentralised energy resources, including distributed renewable generation, energy storage and demand response, are climate-friendly solutions that increase the efficiency of the energy system if their demand-side flexibility potential is activated.

In contrast to new (fossil-fuel) generation power plants that also imply new power lines, public protests for new installations and more CO₂ emissions, load flexibility already exists. The investments are therefore smaller and cost-effective, no extensive approval processes are required, no public protests are to be expected and no grid reinforcements are requested.

Where barriers exist to the development of demand-side flexibility, State aid might support mitigating them in light of the benefits that decentralised energy resources provide to the whole energy system. This would ensure alignment with the CE4AE package which promotes the energy end-user centric approach and the transition to a decentralised, interconnected energy system.

- **Ensure transparency and effectiveness of climate spending**

State aid rules should more systematically require Member States to identify the contribution to climate neutrality in monetary terms in a harmonised manner in view of achieving this EU objective in the most cost-effective way.

smartEn believes that taxpayers’ money should be spent cost-efficiently to ensure credibility and support of European citizens to the clean energy transition.

The definition of a common European methodology could be an option, notably to take into account efficiency on a system level, not just limited to single technologies or projects.

This methodology should be applied by all Member States to prove the effectiveness of State aid investments to reduce CO₂ emissions. Capitals should report back to the European Commission.

A regular (annual) revision of aid effectiveness should be carried out by the European Commission and lead to recommendations to Member States in case aid investments have not proven to achieve climate neutrality cost-effectively.

- **Set competitive bidding processes with fair conditions**

Competitive bidding could become the general principle to allocate State aid for energy and environmental purposes with the condition that:

- The “Do no harm” principle guides State aid to avoid harmful investments to climate neutrality,
- Rules allow for a technology specific and non-discriminatory participation to the bidding process of all resources, including all decentralised energy resources. For schemes targeting resource adequacy, innovative and maturing climate neutral solutions as

energy storage, distributed renewable generation and demand response still suffer from unequal market access (no level playing field), and this should be taken into account when designing fair bidding processes to allow them to compete equally with other sustainable technologies,

- Exceptions to the general competitive bidding process are possible in case of expected inefficiencies (e. g. no liquidity, dominance of a few solutions or players). Dedicated support measures for innovative and maturing sustainable solutions might be introduced or maintained to put them on equal footing with other sustainable solutions. For example, the general approach of provision 127 of the current EEAG should be kept to support smaller “prosumer” distributed renewable electricity generation or storage capacities, albeit a reduction of the 1 MW threshold could be considered.

- **Expand the scope of eligibility costs to include also operating costs**

Both investment (CAPEX) and operating (OPEX) costs should be eligible for State aid.

When applying EEAG, DG COMP has often supported initial CAPEX investments. Some climate-neutral solutions, as demand response, do not incur into high investment costs and would be excluded by default from a CAPEX-only approach.

A support in the form of operating aid might be more beneficial for some sustainable solutions to be able to play on the market. Such forms of aid might be lighter than upfront CAPEX aids, but more regular in their nature.

Conclusion

Greenwashing and the lack of cost-effectiveness are major risks to the clean energy transition.

In the current economic crisis with serious societal implications, the European Commission should ensure the EEAG revision supports the achievement of climate neutrality in the most reliable and cost-effective way.

Our recommendations to achieve this objective imply that State aid should be attributed to energy and environmental protection investments that:

- are truly sustainable,
- contribute to increase system efficiency,
- prove the effectiveness to reduce CO2 emissions,
- are in principle defined through a fair, non-discriminatory competitive process,
- support maturing sustainable solutions to overcome barriers to their market deployment and cover operating costs.

About smartEn - Smart Energy Europe

smartEn is the European business association integrating the consumer-driven solutions of the clean energy transition. We create opportunities for every company, building and car to support an increasingly renewable energy system. Our membership consists of the following companies:

