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Revision of the Guidelines on State aid for environmental protection and energy 2014-2020

Inception Impact Assessment Consultation

ENGIE Response

Europe is striving to become the first carbon-neutral region by 2050 with ambitious targets already for 2030 on GHG reduction, renewable energies and energy efficiency that are subject to upward review.

These targets are reflecting energy policy objectives. As they cannot be delivered through market forces alone, complementary cost-effective measures are needed, including the **creation of enabling regulatory and market frameworks and financial support. Carbon pricing is a key tool to support decarbonization but will not be sufficient**.

To achieve a GHG reduction target of 55% by 2030 **all levers have to be activated**, including energy efficiency, renewable electricity, renewable and low-carbon gases and district heating and cooling. **Many of the solutions required are new or at least not yet largely deployed and competitive** (such as renewable H2, pyrogazification, CCUS, etc.) and need to scale up in order to support a rapid growth and to realize cost reduction potentials.

Even for well-proven and mature technologies (e.g. production of renewable electricity or biomethane from anaerobic digestion), **a pure merchant approach will not bring forward the necessary volumes needed to achieve political targets**. The business cases remain too uncertain for investors. This could be linked to inappropriate market designs (e.g. short-term markets vs long-term investment cycles), market distortions (taxes, network tariff design, etc.), the lack of sufficient sector integration, missing internalization of externalities, etc. Moreover, enabling technologies needed to integrate intermittent renewables in the system (assets providing back-up and flexibility) and to ensure the policy target of security of supply, are facing similar issues.

Addressing these shortfalls by their root causes (i.e. by improving market design, removing distortions, fostering sector integration, internalizing externalities) is necessary and challenging, but will not be sufficient to deliver on the policy targets (e.g. decarbonization, security of supply). A framework for state aid is therefore needed. It should be applied in a competitive, market-based and least distortive way, notably for the most mature assets. Besides, **the total cost of energy transition for consumers should be kept under scrutiny.** This requires paying **attention to system integration costs, externalities and impacts on other sectors, not only on the cost of individual projects (LCOE).**

Support should be made available if needed to all solutions contributing directly or indirectly to the energy transition, **without "picking winners" at an early stage**. However, different solutions are de facto not competing on a level playing field, due to different stages of maturity and development or due to the distortions explained above. **Purely technology-neutral approaches tend to overlook this aspect and jeopardize a cost-efficient transition in the long run.** For instance, renewable H2 is not cost-competitive today with other forms of low-carbon H2, while it is a key solution to decarbonize hard-to-abate sectors in the future. It could therefore be promoted specifically to trigger scale effects and cost reduction. Similarly, dispatchable biomethane (with numerous positive externalities for agriculture, waste management, circular economy, etc.) and variable renewable electricity are fully complementary and should not be put in competition and compared on a simple LCOE-basis. Finally, renewable electricity should continue to benefit from technology-specific tenders, which provide better visibility to investors and allow exploiting complementarities across technologies (such as complementary production profiles for better system integration, etc.).

For similar reasons, **we advise against linking state aide with the EU taxonomy** as the latter does not take a system-wide perspective recognizing the complementarity of different decarbonization solutions and does not sufficiently value the contribution of transition technologies.