

## Summary of EEX' response to the EEAG consultation questionnaire

### Q 23-25

Aid is no longer needed for mature RES application areas and technologies:

- Renewable electricity
- Combined heat and power (CHP)

Aid is too distortive:

- Energy storage
- Demand response

Aid might be further needed and be allowed, but subject to stricter conditions:

- Renewable and low carbon hydrogen production
- Industrial decarbonization
- Energy infrastructure

### Q 26-29

Aid covering operating costs on top of investment costs should not be generally allowed. Aid covering investment costs is normally sufficient to incentivise a project.

Aid paid out as a premium covering the difference between the production costs for one unit and the revenues is not more suited than aid paid ex ante as a share of the investment costs. Operating aid is more distortive.

- Renewable electricity
- Combined heat and power (CHP)
- Energy storage
- Demand response
- Renewable and low carbon hydrogen production
- Industrial decarbonization
- Energy infrastructure

### Q 30-31

Operating aid for environmental protection strongly impacts the aid beneficiary's behaviour on the energy or product market differently than investment aid:

- Operating aid gives the incentive to maximise revenues from aid thus ignoring market price signals from the product market ("produce & forget").
- In case of renewable electricity, operating aid limits the level of market integration as it suppresses incentives to maximise the value of production, e.g. by use of combined RES-production and storage, usage of low-wind-turbines, east-west-PV or providing system services to TSOs.

Q 32

**Current rules do not include appropriate safeguards to avoid potential negative impacts:**

No, the current rules are not appropriate. Renewables should fully contribute and be exposed to the price signal. State aid and subsidies for mature technologies and markets should be avoided. Full market integration is both necessary and feasible. Considerable amounts of renewables are already being successfully integrated into the European power market today.

A concrete example for a negative impact is the remuneration of RES during periods of negative prices. While the current EEAG foresees no support of renewable electricity at negative prices as a general rule, it allows too wide exemptions with no clear termination provision. This failure is impressively illustrated by the recent example of the German EEG amendment. Instead of terminating the “6h rule” after a sufficient temporary utilization, the rule will be prolonged together with and adapted as a “4h rule”. But a clear termination date is missing. Such “prolongation-chains” need to be avoided by clear provisions.

**Additional requirements/safeguards are required:**

a) Any support scheme requires a clear and reliable phase-out perspective

While support schemes with operational aid usually limit the support period for every entitled subject, e.g. to 20 years, support schemes as such are not limited in time. Nevertheless, the necessity of support schemes at all should be linked to criteria such as thresholds for the share of renewables or economic criteria such as the cost competitiveness (e.g. by levelized cost of electricity). Otherwise, the risk occurs that even if the support for entitled renewables would end after 20 years it is still prolonged for political reasons.

b) Principle of market integration

While the current EEAG is referring to the principle of market integration for renewable energies as a general note, a clear definition of market integration as well as clear criteria based on this are missing.

Therefore, a revised EEAG should include both a definition of market integration and a legal requirement to ensure the non-distortion of the functioning of the electricity markets as defined in art. 2 no. 9 of the directive (EU) 2019/944.<sup>1</sup>

**Proposal for a definition of market integration of renewable energies:**

*Market integration is a process which continuously improves the marketing of power generated from renewable energy sources. This has the objective of ensuring that producers and consumers of power from renewable systems respond fully to the market price signal. In this context, the requirement is that income from marketing on the power markets is maximized while government funding/aid is minimised. The use of market mechanisms avoids misallocations, which would otherwise be caused as a result of the assumption of risks by the state.*

<sup>1</sup> ‘electricity markets’ means markets for electricity, including over-the-counter markets and electricity exchanges, markets for the trading of energy, capacity, balancing and ancillary services in all timeframes, including forward, day-ahead and intraday markets

Proposal for legal requirement in EEAG, e.g. to be added to section “3.3.2.1. Aid for electricity from renewable energy sources” of the current EEAG:

- d) Measures are taken to ensure that the aid rules do not affect the functioning of the electricity markets within the meaning of art. 2 no. 9 of the directive (EU) 2019/944 and, as a result, the market integration of renewable energy sources.

Q 33-34

We do not agree that the different instruments for operational aid mentioned in the questionnaire – fixed feed in premium, variable premium and two-way contract for difference – are suitable in terms of incentivising new investments while keeping markets distortions limited to the minimum.

None of these instruments is a suitable future role-models for RES financing and RES market integration. Support schemes should only be used for and until market maturity of RES technologies is achieved. Investment grants are best suited for this aim. As the funding in this method is detached from the actual production, any market distortion is avoided. Furthermore, investment grants incentivize an active role of RES in the product market by being fully exposed to the market price signal.

In contrast, the introduction of state-backed contracts for difference (CfD) for RES expansion would constitute a rupture with the current approach of gradual market integration of all types of generation into a joint market, which has been promoted by the EU Clean Package and is common practice in Member States for many years. It would be a move away from the principle of a market-based energy transition in which trading participants align their activities to the market price signal, thus making the overall system efficient.

With state-backed CfDs, the state becomes the counterpart and markets participants are not exposed to any risk. Such a subsidy scheme puts at question the current existing futures/derivatives markets including financial clearing & settlement which are used for hedging price-, volume- and counterparty risks.

Q 35-36

We see the introduction of carbon contracts for difference (CCfD) to further incentivise the decarbonisation of the industry very critical. This type of support should not be deemed in line with the State Aid Guidelines.

First and foremost, the focus should rather be on aligning the EU ETS framework to the proposed more ambitious EU target for carbon reduction – at least 55% by 2030. Strengthening the carbon price by setting an appropriate cap and linear reduction factor will ensure that low carbon product technologies are competitive.

Secondly, CCfDs lead to several negative consequences for the EU ETS, e.g.

- Risks that CCfDs take parts of the industry out of the ETS
- Need to adjust ETS cap and linear reduction factor to avoid waterbed effects.
- Reduces the effectiveness of the price signal as a short and long term operational- and investment- decisions driver.
- Market participants have no need to hedge anymore, leading to reduced liquidity and efficient price-formation in the derivative market.

- State backed CCfDs tightens public budget compared to the preferred solution of a strong ETS price.

If, from an industrial policy perspective, aid for industry is considered to be necessary, investment grants should be used to incentivise the decarbonisation of the industry which avoids a negative impact on the EU ETS.

#### Q 39-40

Furthermore, we think that carbon contract for difference for the industry would imply certain risks for competition on the market.

Industry benefiting from CCfDs would not be subject to the EU ETS and carbon price signal in the same manner as industry not benefiting from CCfDs. This could lead to a situation where non-beneficiaries of CCfDs have dual competitive disadvantage by not benefiting from the CCfDs and, additionally, are financing the state funding of CCfDs via the EU-ETS, e.g. when member states use the revenues out of the EU ETS primary market auctions to finance CCfDs subsidy schemes.

#### Q 41

The most effective safeguard to reduce the risk for competition in the market is to waive CCfDs completely.

Instead, the EU ETS should be strengthened based on ambitious reduction targets and a corresponding reduction path to ensure an appropriate price signal for carbon reduction. The EU ETS also has a role to play in stimulating investments in new low-carbon or carbon-free technologies. The recent first Call for Proposals of the Innovation Funds amounting to €1 billion shows the success of this financing approach.

Besides the EU ETS as lead instrument, investment grants situated outside of the carbon market can be used to promote investments in new technologies without interfering the functioning of the EU ETS.

#### Q 71-72

We do not consider a hard requirement for Member States to broaden their support schemes for decarbonisation to be beneficial.

In general, state aid support should be an exemption and limited in scope to avoid interference with the lead policy instruments – such as the internal electricity market for RES development as well as the EU ETS for low carbon technologies.

#### Q 120-121

Other suggestions as to how the risks of competition distortions could be mitigated through state aid rules:

- Clear phase-out perspective of support, e.g. by using certain trigger factors such as cost development of technologies or market-penetration of technologies.

Q 144

Miscellaneous:

With regards to energy intensive users: there is no need for a dedicated "industry electricity tariff" with a state-backed guarantee of a certain price level incl. the price for the energy component. Such an instrument would lead to negative repercussions to the wholesale electricity market.

Documents for upload

- EEX Non-paper on distortive market impact of CfDs

Following paper files could not be uploaded due to file size limits – hyperlinks are provided below:

- [Article nature energy on competitiveness of offshore wind](#)
- [Article on negative experiences with CfDs on electricity markets in Australia](#)
- [Paper from Christoph Mauer in the context of the public hearing on the Wind Offshore Law in German Bundestag](#)
- [Paper from the Ariadne project \(landmarks for EU 2030 climate target\)](#)