

EDISON's contribution to the Revision of the EU Guidelines on State aid for Environmental protection and Energy 2014-2020 (EEAG)

Edison welcomes the possibility to provide some additional consideration on the upcoming review of the EU Energy and Environmental Aid Guidelines (EEAG) for 2014-2020¹, and on the new framework that will apply from 1 January 2022.

We have defined our remarks while being fully aware of the exceptional circumstances surrounding this very important process, where the crucial role demonstrated by public support in the past becomes even more important today in ensuring adequate levels of investments in Europe and fairer, more equitable conditions for industries and consumers coping with market failures.

We expect the role of public support to become even more important in the years to come, in view of the extremely challenging economic landscape that lays ahead and in the context of the EU economic recovery. For this reason we believe that it becomes a matter of urgency to agree on a core set of principles that should orient in the future state aid measures for energy and the environment, while preserving those elements that have ensured the effectiveness of the current framework and its success.

GENERAL REMARKS

Competition policies should ensure the simultaneous support of a broad set of EU objectives. The future scope of and conditions for national, cross-border or European aid measures should therefore be inspired by social and environmental objectives, promote the fight against climate change, the environmental protection and ensure accessible, secure and affordable energy supplies to all consumers.

The future framework should maintain in our view the principles of necessity, proportionality and effectiveness, inspired to non-discrimination and technological neutrality and anchored to the principles established by article 107 and 108 of the Treaty.

It should preserve, further develop and reinforce a competitive internal market both in terms of infrastructures and outreach for industries and consumers, while seeking to enhance the competitiveness of the EU and its Member States on a global scale.

We believe that the following recent and future developments should be kept in mind in the upcoming review of the EEAG:

- The most recent legislative and regulatory changes in the field of energy, notably the Clean Energy Package.
- The evolving energy landscape for Europe, where declining domestic production and new technologies and interdependencies come into play, thus shaping the future perspective for markets and investment within Europe and with its energy neighborhood.
- The definition of the National Energy and Climate Plans orienting the priorities for investments in the Member States of the EU to 2030 and beyond;

¹ Communication from the Commission Guidelines on State aid for environmental protection and energy 2014-2020 (2014/C 200/01)

- The emergence of a more integrated approach to EU policy catering for sectoral integration between the energy, digital, transport and agricultural sector, building on the Clean Mobility Package, the Circular Economy Package, the EU Digital Agenda, the Industrial Strategy and the Green Deal.
- The increasing ambition shaping the EU's targets on greenhouse gases to 2030 for a reduction of at least 55% compared to 1990, with the upcoming review of the key EU climate and energy legislation by June 2021.
- The gap between Member States in terms of expenditure possibility, and the ability to provide state aid, especially when pursuing common EU policy objectives. A greater effort should be devoted to restoring healthy market conditions and level playing field.
- The post pandemic economic outlook, where massive liquidity will have to be injected into key sectors catering for the economic recovery. The EEAG revision will have to take into account the impact of the COVID-19 pandemic on Member States' economies and their funding capabilities, together with the deployment of the Recovery Plan for Europe and of the National Recovery and Resiliency Plans. Here we fully share the priorities identified by the Commission and welcome the recent Commission State aid guiding templates to assist Member States in the design of their national plans under the Recovery and Resilience Facility (RRF).

AREAS WHERE STATE AID WILL REMAIN CRUCIAL IN OUR VIEW

In light of the previous considerations, we believe that renewable energy, generation adequacy, energy efficiency, sustainable mobility and green repurposing remain crucial in our view for the future EEAG:

a) Deploying more Renewables with competitive bidding process

The declining production costs and the important technological advancement make even more convenient the renewable sources that are essential to the achievement of the European Green Deal objectives. The need to further develop and deploy renewables across the continent must be supported now by a similar effort to support renewable fuels, bio-renewable gases and hybrid projects entailing energy storage and batteries, for renewables to offer wider benefits to the system.

b) Renewable hydrogen

We believe Annex III of the EEAG should be updated by adding green hydrogen to the list of eligible sectors. We suggest streamlining the development of green hydrogen's production with a supporting framework. The application of the green hydrogen should be concentrated, at least in the short-term, towards those industrial sectors that already use it as a raw material (feedstock) within their production cycles, in order to have an immediate return in terms of emission reduction. The main objective should be to make its costs competitive to buyers in comparison with other types of hydrogen. This intervention on the demand side could also help stimulate supply, thus contributing to the reduction of its production costs in the medium and long term.

c) Long term adequate market, tools and horizon

Market-based capacity remuneration mechanisms represent a critical tool for the electricity systems in many European countries and remain necessary for vital investments in sustainable firm capacity

solutions. For this reason, we believe that adequate market tools with a long-term horizon should be put in place and that the update of the already approved schemes should be possible through a fast-track procedure. Given the paramount importance and their role, when designed around market based-features, capacity markets should not be considered as State aid but rather as an integral part of the market design, since it is a market where firm capacity is being traded and the awarded capacity is allocated following a market process with the aim to ensure the adequacy of the electricity system.

d) Energy Efficiency

- **In Buildings**

Insufficient energy efficiency accounts directly for the largest share of GHG emission in Europe, especially in the building and transport sector. The investments needed in the building sector for energy efficiency are huge and require a substantial effort both in terms of incentives, where important and most welcome measures have recently been taken at EU level including under the Next Generation EU. Incentives will also need structural policies to support the contribution of private investors. When referring to the renovation of the public building a clear framework should be designed to enhance the Public-Private cooperation, catering for investments geared towards cost reduction, sustainability and the introduction (i.e. in public tenders) of KPIs linking beyond CO2 reduction also energy efficiency performance indicators, environmental and social aspects. We look forward to the dedicated initiatives stemming from the Renovation Wave and the future EU legislation for energy efficiency, together with an enabling framework for public support to increase investments to address energy efficiency under the EEAG.

- **In Industry and tertiary sector**

The promotion of energy efficiency measures through market-based mechanisms should be more coordinated with policies and instruments that can ensure in our view a more effective coverage to all the different initiatives and sectors. Decentralized and on-site energy production, in all its different forms (self-consumption, energy communities etc.) should receive in our view a stronger focus, including in the GBER, thus allowing them to grow in competitiveness and deliver cost reduction and sustainability to local economies.

e) Sustainable Mobility

- **EV and EV recharging infrastructures (E-mobility)**

Transport is an important building block in the EU energy-climate policy, since it represents almost a quarter of Europe's greenhouse gas emissions. The development of electric vehicles and charging infrastructures can significantly contribute the reduction of GHG emissions and, at the same time, pave the way to the electrification of the sector. Therefore, e-mobility and re-charging infrastructures should be considered as paramount tools to achieve European Green Deal ambitions. However, the current aid rules do not adequately support such development across Europe, while public support remains crucial for the deployment of EV and charging points. This is mainly due to the low number of electric vehicles and the huge capital required for building and operating charging infrastructures. Therefore, we suggest broadening the space for e-mobility in the new EEAG with specific measures.

Moreover, we propose to extend the block-exemption under the GBER to aid measures for the construction, operation and development of charging infrastructure.

- **Alternative Fuels and Alternative Fuels Infrastructures**

The further development of infrastructures remains crucial for a further uptake of alternative fuels, especially in the hard to decarbonize sectors such as heavy duty and maritime transport. The additional deployment of infrastructure (including multimodal systems) will require important investment in logistic chain relevant for alternative fuels and private vehicles. In this area we believe that aid in the form of support to investment costs (similar to grants tools) remains the most effective approach together with a more targeted support for the production of sustainable bio and renewable fuels.

- f) **Green Repurposing**

The inclusion of the green repurposing in the context of the State aid measures should be taken into account. Green repurposing is related to the re-qualification, re-use or transformation of old and or dismissed plants. It can be an important economic opportunity that helps to mitigate negative economic, social and environmental impacts deriving from the transition. Moreover, efficient repurposing and restoration of land and existing infrastructure is often seen as a fundamental factor in attracting new businesses and permanent new jobs in the affected regions.

ELEMENTS SPECIFICALLY ADDRESSED IN THE EU PUBLIC CONSULTATION

1. Competitive bidding process

Non-discrimination and competition should remain at the heart of state aid guidelines. Competitive bidding processes in general have been useful to drive down costs, increase efficiency in the support and ensure the proportionality of aid.

In circumstances where competitive bidding processes are difficult to organise, either because of natural markets' bottlenecks, or because there are not enough projects on a regular basis for a competitive bidding process to be held, or, then, because projects are so diverse that a comparison of costs only would not seem adequate, the local circumstances should be duly taken into account and shape the evaluation. A thorough and inclusive consultation process can help define the most suitable approach, while taking into account the market structural features, levels of competition, of existing and planned interconnection, etc. This could also help the viability of competitive bidding procedures across heterogeneous projects or in the context of industrial reconversions.

Competitive bidding procedures traditionally tend to select the cheapest/more advantageous projects. This approach has ensured to some extent a decline in the cost of technology costs, but the need to promote domestic value chains or local employment may require in the future the inclusion of other elements, such as the environmental performance, efficiency profiles, could be considered in order to internalise social or strategic interests in the bidding procedures.

2. Eligible costs: operating versus investment expenses

For aid covering operating costs (in particular energy costs and raw material costs) on top of investment costs, for aid paid out as a premium covering the difference between the production costs for one unit and the revenues or for aid paid ex ante as a share of the investment costs, there are several elements that need to be considered, including but not limited to: the nature of the beneficiary (risk taker or regulated entity), the definition of the relevant markets (in particular for electricity and gas in the future) and their structural conditions, but upstream and downstream at retail level, the technology costs and their likely evolution, the local condition, including in terms of interconnections (available and planned), with a particular view to islands and isolated systems.

3. Carbon contracts for difference (CCfDs)

The rationale for addressing the cost resulting from the decarbonization in particularly challenging contexts and processes is well understood, including the need to create a further incentive for industries to invest into decarbonisation technologies.

In any case we believe instruments in the form of CCfDs should be limited to long term investments, should be awarded via competitive bidding procedures and should reflect a technology neutral approach for sectors with high emissions reduction potential but high exposure to international competition. CCfDs should also be contemplated in our view for other pollutants, not only CO₂, especially in domain of alternative fuels for transport sector, where Small-Scale LNG projects have a high potential to reduce particulate matters, Sox and NO_x.

4. Investment aid: funding gap and aid intensities

For investment aid, the EEAG and the GBER use two approaches to calculating the amount of aid that a project can receive, and both have their merits in our view.

The funding gap approach remains valid to support in general energy infrastructure projects that can define in their business plan all revenues and expenses over the investment lifetime, and for which the sum of the discounted cash flows is negative for the investment. We believe that in the context of the economic recovery the new framework should contemplate the possibility to support also activities already started.

The aid intensities approach remains valid for equipment producing energy or products that still need a market breakthrough, but may possibly require a review in the approach by defining the percentages (so-called maximum aid intensity) beyond standard projects where costs and counterfactual are well established, having in mind new solutions, new technologies and hybrid projects. This could be the case for storages and batteries, hybrid systems with RES.

The Rate or return or Return on investment can be better assessed in our view under the investment gap approach, where a thorough business plan can help assess revenues and expenses. Other elements other than ROI might be considered on the other hand in the assessment of the two approaches, especially when investments are required in the pursue of policy driven targets (i.e. on renewable energy, on decarbonized gases or on electrolisers).

5. Transparency and CO2 metrics

The introduction of a new transparency requirement referred to the “environmental protection cost”, and expressed as *EUR aid per tCO2 emissions reduced*, should be pondered in our view in the light of several considerations. While it remains important for the EU energy policy in general to weight the cost of marginal CO2 abatements and refer them to the EU ETS price signals, we believe that in the specific framework of the EEAG, where social and environmental aspects should be considered as well, a CO2 metric alone, if ill-conceived or designed by overlooking other social and environmental aspects, might negatively affect the overall effectiveness of the instrument. Other environmental or social objectives in our view should be considered, in particular when projects tackle several types of impacts. This is without prejudice in our view to ensuring that projects and activities receiving state aid fully comply with the most recent EU sectoral legislation for energy, the environment and climate. Since allocating the costs to the various environmental benefits could be complicated, we believe that instead of a cost-per-unit of environmental benefit, it might be more useful to require some parameters enabling a quantification of the expected benefits of a given investment both in terms of emissions reduction and at social and environmental level. These aspects should concur to the evaluation but should not be the only reference for determining the aid necessity.

6. Cross-border opening of aid schemes

Aid schemes could be opened to cross-border participation for all projects in Member States that can contribute to the achievement of a common EU objective. The principles that apply to the cross-border opening of capacity mechanisms could be a starting point but will have to be adapted to take into account the different types of investment. Such an approach would genuinely promote competition and offer equal access to financial resources for Member States. Monitoring and rules could be further streamlined all over Europe, thus increasing the willingness of national authorities to cooperate.

This approach could also be rewarding for schemes targeting a specifically local pollution problem — air quality in a city for example, since a given support scheme in one Member States could be easily replicable for other Member States. For specific sectors or products public support could be granted at EU level with umbrella schemes. This approach would also help mitigate the difference in economic resources between Member States and ability to support domestic sectors compared to other Member States.

The requirement to enable foreign participation (i.e. from third countries) could be limited to a percentage of the available budget for a scheme.

7. Energy Intensive Users

The risk of relocation of the energy intensive industries remains a concrete one. These aspects need to be addressed in the broader EU industrial policy, having in mind the possible future initiatives including but not limited to a Carbon Border Adjustment Mechanism, the future of free allowances under the EU ETS, trade and fiscal policies. Among other initiatives, making aid conditional upon requirements to invest part of the support in energy efficiency and/or the de-carbonisation of production processes could possibly help.

OUR KEY MESSAGES

- a) State aid rules should ensure that activities receiving support fully comply with the most up to date EU sectoral legislation, requirements and standards especially for climate and the environment, while the EEAG should remaining anchored to the principles of technological neutrality, openness, transparency, competition and non-discrimination.
- b) State aid granted to address market failures require an in-depth understating of the market and of the causes of its failures. The structural features at upstream and downstream/retail level need to be addressed with a view to resolve them.
- c) The different nature of investment (public, private, merchant, regulated), the type of risk that they entail, the features of the markets they insist and the financial conditions surrounding them should receive more attention in the evaluation of state aid schemes, while solid business plans should be required.
- d) The future state aid rules should encourage private investment with a genuine risk appetite, sound business plans and robust risk management practices.
- e) Aid categories and technologies should be revised in the new EEAG in light of the most recent developments and future perspectives. We would be favorable to broadening the aid eligibility to other beneficiaries, sectors or technologies that require support.
- f) Research, development and Innovation (RD&I) are today dealt with a separate and specific set of rules, although they should be addressed in a comprehensive and coherent way also under the EEAG in order to fully exploit the synergies between the energy and the digital solutions. The definition of “innovation” itself in the EEAG might be reviewed in this sense so that the scope for eligible aid can be enlarged.
- g) The consultation of interested parties should be ensured along the entire process of notification of the state aid measures, including in the prenotification of schemes.
- h) The EU approach to fiscal and trade policies may evolve as well in the future. The future guidelines should also look at potential areas of synergies and improvement in these areas while seeking for coherence and mutually reinforcing policy designs.