



Union Française de l'Électricité

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Position Paper

UFE's position on the Revision of the Guidelines on State aid for Environmental protection and Energy (EEAG)

State aid guidelines for environmental protection and energy (EEAG) no longer reflect the reality of **the market developments and technological changes** that occurred over the past few years to comply with more ambitious **climate and energy targets**. The EEAG need to be revised and modernised to address the challenges which businesses are facing to invest in clean energy while maintaining their competitiveness. The **future EEAG must also be aligned with EU's latest legislative developments regarding climate and energy ambitions** – from the Clean Energy Package to the Green Deal – as they not only deeply modify market design configuration but also increase both the objectives in terms of energy from renewable sources and the means by which they can be achieved, in order to engage the power sector in an increasingly decarbonised path.

The French Electricity Industry (UFE) has identified the following key priorities to make sure that **(i) investments in renewable and low-carbon electricity are supported**, especially capital-intensive investments requiring long-term frameworks, and **(ii) that industry sectors** that are more exposed to international competition can reduce their carbon footprint while remaining competitive.

The scope of the EEAG should be enlarged

The EEAG must help achieve the Green Deal ambition, in which **renewable and low-carbon energy sources play an important role**. Therefore, UFE stresses the **need to refocus the EEAG around key policy objectives, namely climate neutrality by 2050, security of supply and resilience**, while taking into account the intermediate energy and climate targets for 2030.

The EEAG already play a key and necessary role in supporting the development of energy from renewable sources and must continue to promote their uptake in order to achieve the 2030

renewable target. In addition, adaptations are needed in order to fully help achieve the EU's decarbonisation ambition.

- To that end, UFE believes that the EEAG should allow State aid to be granted to **all assets and technologies contributing to achieving carbon neutrality**, for instance: **renewable and nuclear** low carbon assets, carbon capture and storage (CCS), **demand-response, storage** assets needed to balance the future power system etc.
- State aid should therefore be granted, where needed, to **investments in new or existing assets** which would not or hardly materialize otherwise, **irrespective of the considered technology**. This would especially be the case when the considered investment is highly capital-intensive and not yet sufficiently attractive for private investors, especially because the time for the development and/or building of the project is particularly long.
- On top of that, to take full advantage of the revamping of existing hydropower assets, the threshold for mandatory competitive bidding process – currently set at 1MW – should be raised, to avoid leaving behind valuable assets due to the tender procedure.

This enlargement of the EEAG scope will **help Member States achieve their energy and climate policy objectives**.

However, **financial support should be granted without qualifying as State aid for certain pilot projects** for which a Member State seeks the adequate form of public support. This should be the case for projects aiming at developing a given tool or technology, when the project relates to very limited volumes and aims to achieve the objectives set out in the Member State's NECP. For example, this should apply to the experimental call for tender being developed by the French State to identify the adequate public support to foster implicit demand-response.

Linking the EEAG with the EU Taxonomy must be avoided

To provide further transparency and certainty, the revised EEAG should reassert the essential principles that will guide the granting of the proposed aid measures. This will allow for an effective investment framework, ensuring **investors have the visibility** to efficiently manage their risk and control their costs.

However, **UFE does not support the Commission's proposal to use the EU Taxonomy** as a tool to identify the contribution of State aid to environmental protection. First, this would be difficult to assess as the delegated acts of the EU Taxonomy are still underway and have not yet been adopted. Second, State aid should be assessed **on a case-by-case basis considering the targeted objective of common interest**.

- **Therefore, UFE does not support using provisions set in the EU Taxonomy to decide upon the compliance of a given State aid with the EEAG.**

When it comes to technology development goals, technology-specific calls for tender should become the general rule

The scope of a given aid measure should be **adapted and differentiated according to the aid's objective**.

Experience has shown that **technology-neutral calls for tender are not efficient to develop renewable energy sources (RES) capacities**, as they tend by nature to favour the technology showing the lowest levelised cost of electricity (LCOE), irrespective of the actual value of the energy produced. This means that the broader contribution of technologies to the balance of the power system (for instance based on their time of production or their complementarity with the rest of the electricity mix) is not taken into account. **This can significantly hinder the development of less mature (i.e. more expensive at this stage), yet promising technologies which could usefully contribute to the power system.**

Priority should be given to removing market barriers that may exist to the development of these new technologies. This being said, technology-specific calls for tender **guarantee the coherent development of RES with regard to national decarbonisation targets**, while maintaining a competitive drive to lower costs per technology and progressively integrating them to markets.

- **Therefore**, when the aid aims at achieving a technology development goal, **UFE calls on the Commission to consider technology-specific calls for tender as the default option.**
- The **specifications of technology-specific call for tender should also be differentiated** according to each technology's particularities, in order to avoid stranded costs caused by unsuitable procedures (e.g. regarding permitting requirements).

Aid instruments must be chosen carefully

UFE calls upon the European Commission to clarify the concepts of **'investment aid' and 'operating aid'**, and stresses that these concepts should only refer to the **costs being compensated (CAPEX and/or OPEX)**. **The way in which the aid is granted – either as a function of installed capacity (€/MW) or energy produced (€/MWh) – should not be used in the definitions.**

Contracts for difference (CfD) – i.e. floating feed-in premium – remain an essential tool of support for the development of all types of renewable and low-carbon assets, in order to ensure the necessary visibility and reduce the cost of technologies. Therefore, they should remain the preferred option (except for small projects, for which feed-in tariffs are more appropriate), in order to avoid affecting the efficient dispatch of power generation units. In particular, future subsidy schemes to generation units should continue to withhold support when energy prices are lower than the variable costs of the units, as this leads to negative prices for RES generation.



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When aiming to guarantee security of supply, a technology-neutral stance must prevail

UFE recalls that pursuant to Article 194(2) of the TFEU, **Member States are responsible for their own energy mix**. In this regard, the EEAG should allow for Member States to support – proportionally to their contribution – all technologies that can contribute to achieving the targeted objective of common interest and the goals set in their National Energy and Climate Plan (NECPs). This will give Member States the required **flexibility to diversify their energy mix** while ensuring their security of supply.

- Therefore, when the aid aims at **guaranteeing security of supply** (e.g. capacity mechanisms), a **technology-neutral stance** should prevail.

Cross-border support schemes should remain optional

UFE stresses that **cross-border support schemes for renewables** (i.e. covering more than one country) **should remain optional, limited and based on reciprocity**.

- When developed, cross-border support schemes should be carefully designed, in particular with regard to the following points:
 - **They must not lead to any distortion** between RES projects they finance on the one hand, and RES projects participating in tenders at national level on the other hand. Since national frameworks have a significant impact on the cost of a given project, **the same standards should apply to both procedures**, especially in terms of connection requirements, administrative costs and regulatory framework. This will allow for a **level playing field between national and cross-border calls for tender**.
 - Clarification is needed on the way cross-border calls for tender are taken into account in the achievement of **Member States' NECP objectives**.
- UFE believes **it should be possible to limit the amount of cross-border support** in a proportionate manner, depending on the project and its expected contribution to the achievement of Member States' NECP objectives. However, **UFE does not support setting a fixed rate**, as the level of cross-border support should remain flexible for Member States and be based on the needs of the relevant project(s).