The Draft Environmental and Energy Aid Guidelines 2014-2020

Multilateral meeting 10 February 2014

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EEAG: part of State Aid Modernisation (SAM)

Objectives

• Support sustainable growth and contribute to improving public expenditure ("more with less")

• Wider exemptions for measures clearly unproblematic (less red tape and faster decisions)

• Focused enforcement: cases with greatest impact on the internal market

SAM process approaching its final steps: entry into force of most rules on 1st July 2014
2008 EAG: Positive outcomes

- Significant reduction of greenhouse gases (GHG)
- Steep increase of renewable energy generation
- Progress towards the energy efficiency target
... but also concerns

• Significant cost increases for electricity systems, consumers and industry => concerns about competitiveness

• Reduced price signal for investments => concerns about generation adequacy / security of supply

• Lack of integration of RES in the market => distortion of competition and partitioning of the internal market
**Competitiveness**

The financing of renewables constitutes an increasing part of the electricity price

Some consensus that energy intensive users should be shielded to avoid carbon leakage

ETS Guidelines v. EAG

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**Evolution of electricity tariff components**

(EU average change 2008-2011 in %)

Source: Eurostat
Planned decommissioning of dispatchable plants

Known new dispatchable plants to be commissioned after 2010

Decommissioning in 2011-2020 as % of 2010 GW

Decommissioning in 2021-2030 as % of 2010 GW

Source: Cowi et al. Draft report, 28 May 2013
Support levels vary widely across the EU

RES-e support levels dispersion by technology: maximum, minimum and average

<table>
<thead>
<tr>
<th>Technology</th>
<th>Maximum support</th>
<th>Minimum support</th>
<th>Average support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydro</td>
<td>103.93</td>
<td>1.13</td>
<td>40.74</td>
</tr>
<tr>
<td>Wind</td>
<td>111.48</td>
<td>11.27</td>
<td>49.33</td>
</tr>
<tr>
<td>Biomass</td>
<td>143.74</td>
<td>6.74</td>
<td>59.66</td>
</tr>
<tr>
<td>Biogas and waste</td>
<td>126.76</td>
<td>4.2</td>
<td>42.87</td>
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<tr>
<td>Photo-voltaic</td>
<td>543.43</td>
<td>78.74</td>
<td>241.67</td>
</tr>
<tr>
<td>Geo-thermal</td>
<td>157.59</td>
<td>80</td>
<td>12.50</td>
</tr>
<tr>
<td>Total (€/MWh)</td>
<td>196.32</td>
<td>6.93</td>
<td>80.65</td>
</tr>
</tbody>
</table>

Source: CEER, June 2013
Addressing the concerns: the draft EEAG (1)

Introduce more market friendly support for energy from renewable sources (RES) by gradually exposing RES generators to market prices, while allowing new technologies to develop.

Allow reductions in charges for the financing of RES support measures for energy intensive users under strict conditions to prevent the risk of carbon leakage. Common rules to limit distortions across MS.
Addressing the concerns: the draft EEAG (2)

Introduce energy infrastructure in the scope of the EEAG focusing to facilitate State aid for cross border infrastructure and infrastructure in less developed regions.

Introduce compatibility principles to assess generation adequacy measures; limited to what is genuinely needed to ensure sufficient generation capacity and cannot be delivered by the market.
Addressing the concerns: the draft EEAG (3)

Simplify the rules (transfer of well-established environmental aid measures from the guidelines to the General Block Exemption Regulation)

Provide for a smooth transition to the new rules, ensuring legal certainty and avoiding disruption
Our meeting today: agenda

- 10.15 – 11.15   Renewable Energies Support
- 11.15 – 11.30   Coffee break
- 11.30 – 12.30   RES financing reductions for energy intensive users
- 12.30 – 14.00   Lunch break
- 14.00 – 15.00   Energy infrastructure and capacity mechanisms
- 15.00 – 15.15   Coffee break
- 15.15 – 16.15   General issues /Any other business
- 16.15 – 16.30   Conclusion
Renewable Energy

Ronald van de Ven

State Aid Energy and Environment
DG Competition
European Commission
Reduce costs – increased focus on proportionality

• **Deployed renewable electricity**
  • Competitive bidding process
    – Possible to ensure mix of renewable energy technologies
    – Possible to exclude biomass or specific RES for grid security
  • Competition across technologies

• **Less deployed renewable electricity / small installations**
  • Regular updating production costs to avoid overcompensation
Integration in the market

- **Deployed and Less deployed renewable electricity**
  - Premiums or equivalent measures incl. direct marketing
  - Balancing responsibility where intra-day markets

- **Small installations**
  - Feed-In-Tariffs allowed
  - No balancing responsibility required

- **No retroactive** application of new guidelines to aid granted under existing schemes
Reduced environmental taxes and reduced RES financing costs for energy intensive users

Brigitta Renner-Loquenz

Head of Unit State Aid Energy and Environment
Directorate-General for Competition
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Reduced RES financing costs for energy intensive users

- Reductions of additional costs for some sectors may be necessary to facilitate the overall funding of support for achieving EU RES target and to avoid carbon leakage.
- Aid should be limited to sectors at risk of carbon leakage due to RES financing costs, should not undermine the national financing base and maintain efficiency incentives.

1. Trade intensity with third countries above [10]% and RES financing costs amount to at least [5]% GVA
2. Within the eligible sector the choice of beneficiaries is based on objective and transparent criteria, and aid is granted in a non-discriminatory way
3. Beneficiaries pay at least [15]% of the additional costs without reduction until [31.1.2017] and [20]% as of [1.1.2018]
4. Compensation is paid as a lump sum amount
Reductions from environmental taxes

- Reductions may be necessary to achieve generally higher environmental tax level

- Current rules largely unchanged, GBER maintained for ETD

- NEW: Aid for indirect tax costs from a tax on energy products used for electricity production (comparable to indirect emission costs)
  1. Indirect additional tax costs lead to an increase in production costs of at least [5]% of GVA and trade intensity with third countries is above [10]%
  2. Beneficiaries pay at least 20% of the indirect tax burden
  3. Compensation is paid as a lump sum
Energy infrastructure and capacity mechanisms

Luca di Mauro

State Aid Energy and Environment
DG Competition
European Commission
Energy Infrastructure

Current **regulatory framework applies**

- TSO invests and recoups through access tariffs

BUT: Some types infrastructure **more difficult to deploy**

- Positive externalities
- Coordination

**Cross-border** infrastructure and **assisted regions** targeted

**Limited competitive distortions**

- As long as regulatory obligations apply (third party access, regulated tariffs, unbundling)

Case by case assessment for exempted infrastructure
Generation Adequacy

Capacity mechanisms come under several forms

- State aid possible

When they entail State aid, need to limit distortions and preserve internal market

- Clear assessment of **causes of problem** of generation adequacy
- Support only for **availability**
- Include **demand-side response** measures
- Open to **new and existing** generation
- Allow for **sufficient lead time**
- Open to **other MS** when possible
General issues

Ronald van de Ven

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European Commission
Increased possibilities of GBER

New under General Block Exemption Regulation

• Operating aid for renewable energy
• Investment aid for remediation of contaminated sites
• Investment aid for energy efficient district heating and cooling
• Energy efficiency projects for buildings
Notification thresholds

• **Investment aid**
  • Maintained notification threshold of EUR 7.5 million.
  • For new GBER categories
    – EUR 20 million district heating and remediation of contaminated sites.

• **Operating aid**
  • Maintained notification threshold: 125 MW (RES), 200 MW (CHP), 150,000 t/y (biofuels).