

To: European Commission, DG Competition

## **Nordenergi calls for a restrictive framework for state aid measures to support the Clean Industrial Deal (Clean Industry State Aid Framework – CISAF)**

Nordenergi is the collaboration between the Nordic energy associations Finnish Energy, Green Power Denmark, Renewables Norway, Samorka and Swedenergy.

We refer to the public consultation on a new Framework for State Aid measures to support the Clean Industrial Deal (CISAF). The CISAF will be applied together with the existing guidelines on State aid for climate, environmental protection and energy ('CEEAG') and the General Block Exemption Regulation (GBER).

The rules outlined in CISAF are based on the case practice and relevant experience gathered by the Commission from the application of the Temporary Crisis and Transition Framework ('TCTF'). Together these instruments provide the basis for opportunities for extensive state aid in the internal energy market based on accelerated procedures. The consultation in particular concerns aid to "industrial decarbonization" and aid to "reduce risks of private investments". Renewable Energy and Electrification are the keys to achieving this.

Our main messages are:

- Aid should as far as possible not interfere with well-functioning markets based on marginal pricing so that efficient and competitive new electricity production supports industrial decarbonisation.
- Future demand for capacity expressed through price signals in efficient markets is the cornerstone for capacity investments.
- Industrial competitiveness and the goals of the Clean Industrial deal will need some public aid. While preserving the single market integrity, the priority of the framework should be on the industrial sector and the demand for decarbonised energy solutions, mainly electricity.
- There is thus a larger need to use aid in order to reduce end-user CO<sub>2</sub>-emissions through electrification and hydrogen where market failures exist, typically in power intensive industries. This should primarily be done through EU funds, but national schemes can also be useful in providing guarantees and risk mitigation between producers and consumers if designed carefully.
- Nordenergi supports a continuation of the possibility for Member States to compensate exporting industries that face the danger of carbon leakage.

### 1. General comments

Nordenergi generally calls for market based European policies in the energy sector that secure achievement of our ambitious climate agenda, security of supply and green growth in line with the clean industrial deal (CID) for Europe. We welcome the conclusion in the Draghi-report on the Future

of European Competitiveness to "keep the marginal pricing system to ensure the efficient balance of the energy system". Scarcity pricing is essential to the integrity of the power system, and marginal pricing ensures competition, innovation and appropriate investment signals in new production and thereby the efficient use of resources. We also welcome the proposal in the Draghi-report to facilitate the use of market based long-term contracts like PPAs to reduce price volatility and incentivise new investments based on competition, also in energy storage and flexibility. Nordenergi would like to recall that the CO<sub>2</sub>-price in the strengthened EU ETS1 is now at a level that should lead to new investments. Falling renewable energy costs and a stronger EU ETS1 system reduce the need for subsidies and state aid generally. The EU should urge the Member States to avoid overlapping policy instruments in the EU ETS1 sector.

## 2. Aid to investments in new production

Nordenergi is worried that the CICA opens for the introduction of broad state aid schemes for mature technologies at national level. We risk using scarce public funding to create a race between member states to have the most generous state aid schemes. This threatens the homogeneity of the internal market and will lead to inefficient use of resources. In case subsidies are needed, they should be carefully designed to ensure as little market distortion as possible. It should be noted that, generally speaking, investment support provides less distortions in the market than CfDs, both in the short and long run. All aid to electricity production should be subject to competitive bidding and as far as possible technology neutrality. Harmonized, transparent and well-designed non-price-criteria could play a role in auctions. The key for investments in new electricity production capacity is rapid permitting and grid capacity.

## 3. Aid to investments in new power capacity

Nordenergi is also of the opinion that future demand for capacity expressed through price signals in efficient markets is the cornerstone for capacity investments. This will ensure overall efficiency and security of supply in the energy market. Assessments of what is sufficient capacity should take market behaviour into account, including how changes in the power price affect producer and consumer choices of power production and consumption. This remains underestimated by decision-makers and system operators.

Additional capacity needed to uphold a minimum level of resource adequacy can be acquired through carefully designed Capacity Remuneration Mechanisms (CRMs). As market-wide CRMs may lead to increased prices for consumers and distort the market they should be implemented with great care and the required volume should be calculated in accordance with ACER guidelines. CRMs should therefore only be used where necessary. The Commission should continue to recommend strategic reserves when capacity shortages are limited. If shortages are larger and persistent over time, the Commissions should allow for other market-wide, technology neutral (including demand response and storage capacity remuneration) mechanisms that are open to cross border participation. In both cases the capacity remuneration should be scheduled for renewed approval after a certain time period.

Capacity volumes should thus be determined in accordance with ACER guidelines regarding estimation of an economical optimal reliability standard. Lastly, the mechanisms should primarily be financed via consumption fees in times of system stress, to uphold incentives to reduce consumption in these periods.

#### 4. Aid to decarbonisation, in particular in industry

The electrification rate of energy demand has stagnated in the past years. To enhance decarbonization and competitiveness of European Industry, it is important to accelerate electrification by substituting fossil energy use, both through electrifying processes and making industrial demand more flexible. Nordenergi sees a need to use EU-wide funds based on competitive selection in order to reduce end-user CO<sub>2</sub>-emissions through electrification and hydrogen where market failures exist. EU-wide funds could be complemented by carefully designed Member State specific support instruments, but subsidy races between the countries should be avoided. State aid should be considered also in the light of keeping the EU competitive in the global technological race. Therefore, state aid rules should be revised to better support strategic sectors that are in line with the net-zero technologies and thus crucial for EU competitiveness and security of energy supply. The use of electrification or hydrogen often requires the application of new, immature technologies (typically in power intensive industries) or is exposed to market failures ("chicken and egg" problems typically in electric mobility and charging infrastructure). Therefore, state aid can be justified to overcome market failures and mitigate risks that the market itself cannot take on.

Nordenergi in general recommends giving public aid to decarbonisation of industry, when needed, in rather than through distorting the power market and artificially lowering electricity prices.

#### 5. Aid to consumption of energy

Furthermore, Nordenergi is generally opposed to state aid for the consumption of energy. State aid with direct subsidies for the consumption distort markets. State aid schemes in different Member States over the last couple of years have only led to increased consumption and reduced incentives for energy efficiency, flexibility and local production. Scarcity pricing is essential to the integrity of the power system. Member States should instead support vulnerable households more directly through social welfare systems when needed. On the other hand, support for demand-side response should be granted following a competitive process, in particular for industry. Such support should follow a competitive process. This would both represent a pull for demand of clean electricity and avoid interventions into the electricity markets.

Nordenergi supports a continuation of the possibility for Member States to compensate exporting industries that face the danger of carbon leakage.

#### 6. Aid for investments in electricity grids

Finally, Nordenergi would like to stress that investments in electricity grids, as a general rule, should be financed through tariffs and not via state aid. User financing of grids and infrastructure is a cornerstone in the power system in order to make cost-efficient investments and to avoid making investments subject to budgetary constraints in political processes. Over the last 30 years much effort has been done to ensure that the TSO and DSOs as monopolies compete within an income framework.

Nordenergi looks forward to cooperating with European policy makers. We should aim to achieve both the transition into climate neutrality and improved industrial competitiveness through an industrial deal while ensuring security of supply. Our focus must be on increased renewable and clean energy production, a strengthened grid infrastructure, and a well-functioning internal electricity market.

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*Nordenergi is the joint collaboration between the Nordic associations for electricity producers, suppliers and distributors. Members are Swedenergy, Green Power Denmark, Renewable Norway, Finnish Energy and Samorka. Overall, Nordenergi represents more than 2,000 market actors (member companies), most of them active in the electricity sector, but also in other areas such as district heating, gas and services. For more information regarding Nordenergi please visit [www.nordenergi.eu](http://www.nordenergi.eu). EU Transparency register number: 85161125283-02.*

