

EPPSA response to

Consultation Paper on Guidelines on environmental and energy aid for 2014-2020

February 2014

Directorate General for Competition

Transparency Register:

European Power Plant Suppliers Association's ID number: 18146381379-29

Avenue Adolphe Lacombé 59/8, B-1030 Brussels

EPPSA, representing European power plant suppliers, companies supplying power plants, components and services, welcomes the new guidelines on environmental and energy aid for 2014-2020, particularly for continuously shaping an EU inclusive energy policy.

EPPSA commends the European Institutions for the work and progress achieved up to this point and welcomes the opportunity to provide industry feedback as well as to offer their expertise in a constructive dialogue with the institutions concerned. We therefore comment below on those topics most relevant to EPPSA.

General Remarks:

EPPSA believes that in order to boost competitiveness and to provide adequate security of supply at the same time, the solution is to have well-balanced market conditions for all generation technologies. In other words, when a technology reaches maturity, subsidies should be removed. EPPSA acknowledges the justified significance of applying subsidies in generation technologies that need to be protected, as it is the case for Renewable Energy Sources. The subsidies should be there to move technology forward into commercial demonstration and subsequently to grid parity. They should lead towards competition establishment and therefore to lower the prices of electricity for industrial, household and services consumers. It is obvious that the EU should carefully manage subsidies and feed-in tariffs in order not to impose further burdens that can distract from leading to competition and cost-reduction.

EPPSA welcomes the views of the Commission that capacity mechanism designs need to respect some key principles: non-discriminatory, market-based, forward looking, transparent and cost-effective in the interest of household and industry. Generation, cross-border exchanges and demand-response all contribute to the security of supply and should therefore be eligible to participate in capacity mechanism regimes. RES should be integrated into the market and be balance-responsible, potential risks to the security of electricity and reduce the associated costs to end consumers.

Specific Remarks:

Aid to energy from renewable energy sources:

Paragraph (120) (b) states that “All generators producing electricity from renewable energy sources can bid for the aid on a non-discriminatory basis.

In order to limit the effects on the raw material markets, Member States may exclude or limit energy production using biomass from the bidding process. No other operating aid may be granted to new installations producing electricity from biomass which are excluded under this provision.”

EPPSA would like to point out that biomass results, normally, of waste wood from agriculture and is not competing with food production, as biofuels sometimes do.

EPPSA is concerned that these statements go beyond technology neutrality and restrict operating aid to plant operating with biomass. It is not clear why a CO₂ neutral technology as energy from biomass should be penalized compared to other CO₂ free technologies. Biomass should be encouraged independently of the percentage of biomass used, may it be a co-fired plant or a 100% biomass-fired plant.

Paragraph (120) (d) proposes standard balancing responsibilities on renewables (when competitive intraday balancing markets are in place).

EPPSA welcomes this proposal and would like to suggest the following approaches:

- Using existing assets to be allowed to aggregate (e.g.: with thermal power plants, storage devices or demand side management) and therefore allowing RES to provide ancillary services to the system.
- Mechanism to reward highly flexible, fast ramping thermal power plants.

Also, EPPSA calls on the Commission to bring forward clarifications on State aid eligibility and intensity for:

- New biomass plants (plants that started operation after 31st December 2013)
- Co-fired plant (biomass plus fossil fuel)
- Biomass plant equipped with CCS

Carbon Capture and Storage:

EPPSA welcomes and supports the European Commission's approach to Carbon Capture and Storage (CCS) underlying that in all established scenarios (e.g.: Energy roadmap 2050), fossil fuels will remain an essential part of the European energy mix and therefore, CCS will represent a key technology. A non-carbon roadmap as opposed to a low-carbon roadmap would promote a more expensive path to decarbonisation, given that the European Commission's Energy roadmap 2050 acknowledges the costs of decarbonisation without CCS to be 40% higher. EPPSA stresses to the European Commission that the additional costs raised by the integration of a capture plant should include the actual modification to the plant (i.e.: Guidance shall be provided on treatment of additional operating costs incurred from retro-fitting existing plants) and the efficiency penalties endured.

The development of a CCS project requires a number of studies including Environmental Impact Assessment (EIA), CCS Readiness Study (as stipulated by the CCS Directive) and a Front-End Engineering Design (FEED) study. These studies needed prior to the Final Investment Decision are an integral part of a CCS project and should therefore be eligible for the same 100% aid intensity rate.

EPPSA is concerned that these studies may fall under the category "environmental studies", and therefore could not benefit from the 100% aid intensity rate. This would increase the investment hurdle to CCS as developers might be reluctant to make the investments necessary to develop projects to the final investment decision and construction phases if the aid intensity ranges only from 50 to 70%.

We therefore call the Commission to clarify that all the studies linked to a CCS project (namely the pre-Final Investment Decision activities) qualify for the same aid intensity rate as CCS (100%), as stated in the Guidelines.

EPPSA welcomes the acknowledgement that any national strategy should take into account the potentials of CCS not only for power generation but for industrial applications as well, but would like to stress to examine the possibilities for Carbon Capture and Use (CCU); national strategies for setting up the necessary infrastructure (e.g. transport pipelines) that CCS will require should be developed in parallel.

Financial incentive: a CCS certificate system could help promote more widespread deployment of CCS once early deployment has been successful.

As CCS entails higher costs, its deployment depends on balancing these higher costs with a higher revenue stream for operators for CCS plants, especially in the absence of a strong EU ETS signal. While this could be a feed-in tariff for CCS-equipped plants, it must not necessarily be done in this way;

Member States should prepare a national strategy to prepare for the deployment of CCS technology, but first put the main focus in promoting public awareness and public acceptance of CCS. Any aid should be complemented by a strong PR campaign:

A stronger PR campaign explaining the benefits of CCS for both decarbonisation and the socioeconomic dimension is absolutely critical if CCS is to be deployed in Europe.

Past communication of both public bodies and industry about the benefits of CCS to the wider public has clearly not been successful and, in fact, can be considered a PR disaster. As negative publicity travels far

faster and remains salient for far longer than positive publicity, it is very important that key position holders in the EU engage in more proactive communication on the importance and benefits of CCS as well as CCU. Above all, clear, unambiguous statements must be made to properly communicate the fact that CO₂ is not a toxic compound and thereby counteract the misleading parallels that are made far too often between long-term storage of CO₂ and long-term storage of nuclear waste.

Therefore, public acceptance campaigns must also be considered an integral part of the costs of a CCS project.

Overall, a well-organised, open-minded, long-lasting communication strategy should be developed and initiated as soon as possible. Such a communication strategy should be based on a holistic perspective that presents not only the technology itself but above all its benefits from different viewpoints (economic, environmental, social), by showcasing the relationship between power plants and CCS technology and a secure, reliable, and independent energy supply, and the resulting benefits thereof for the climate, jobs, and overall welfare; CCS will be crucial not only for achieving decarbonisation of the EU, but for achieving it at least cost. Additionally, the potential of CCS as an export technology should not be neglected, and is another reason why demonstration programmes must be finalised as soon as possible.

Generation Adequacy:

EPPSA welcomes the European Commission's approach on state aid for generation adequacy:

At present, it is clear that the energy-only market is not able to secure the performance of recent investments, nor is it able to support decisions for new investments.

The reason for new market mechanisms in principle, and regardless of their implementation, is to manage intermittent RES generation.

Essentially, the aim of a new market mechanism is to overcome the generation gap by ensuring enough capacity is available – either through preventing retirement of existing plants, by promoting new-builds, or a mixture of both.

However, a new market mechanism is the only political solution for the investment gap problem and its impact must be analysed not only from the perspective of overcoming the generation gap but from the perspective of the electricity market and energy system as a whole. The electricity market in EU Member States today is increasingly characterised by multiple and varying national capacity mechanisms on top of a variety of different support schemes for RES. The main result thereof is that today's increasingly integrated European energy market – i.e. what will eventually become the EU's 'Internal Energy Market' – is full of competitive (dis)advantages and market distortions, as mechanisms are not optimally designed; there is a lack of incentives for thermal power generation, and a level playing field between technologies is missing. Thus, the deregulation of the European Energy Market, which is a key objective of the EU's energy policy, is a myth. Policy fragmentation at Member State level with varying incentives – sometimes preventing plants from retirement, sometimes only supporting new capacity without considering possibilities of refurbishment with state-of-the-art technologies – is counterproductive to the EU's objective of an Internal Energy Market and will not fully overcome the unintended consequences of energy policy.

EPPSA welcomes the Commission's *appropriateness* approach:

Indeed, what is needed is a smart market mechanism which incentivises state-of-the-art, flexible and part-load efficient thermal power generation with added value for grid stabilisation, based on a variety of fuels to support diversification of Europe's energy supply. Paying for capacity as such, without considering the capability of the capacity for the role it is asked to play (i.e. flexibility and part-load efficiency), and by discriminating against either new builds (via strategic reserves) or refurbishment (via capacity auctions for strictly defined 'new' capacity only) prevents the application of state-of-the-art technologies to the extent that is necessary in the face of the requirement for an energy supply that is sustainable, secure, and affordable. In turn, this lack of application and deployment does not provide sufficient incentive for further R, D & D, and altogether risks the loss of European technological leadership on top of jeopardising the sustainability, security, and affordability of the European energy supply.

The 10 Commandments to be recognised for a “New market Mechanism” in Europe are:

1. Market Conditions have to be respected
2. Secured Power Supply must be safeguarded
3. RES have to be integrated in the market
4. Ancillary Service must be supplied with reasonable costs
5. Power Quality has to be ensured on a high level
6. Energy Storage must generate arbitrage
7. Demand Side Management must be promoted
8. Non Discrimination of fuel or technology whilst recognising the need to significantly reduce emissions from fossil fuel combustion
9. Cross Sector Technologies must be integrated
10. Uniformity over Europe must be reached

To reach this simply to implement a capacity market is reaching too short. A fundamental analysis has to be done all over the European Union and an uncomplicated regulative mechanism has to be introduced, which is serving the entire system.

It should be stressed that a clear difference between subsidies for fossil fuels and subsidies for power generation. When the former results from two different aspects, namely a strategic reason for Member States to keep indigenous energy resources, keeping energy prices low, independent and their economy competitive and a linked social/traditional reason, the latter is technically sound to burn coal and gas from the global market.

“The measure should in principle not reward investments in generation from fossil fuel plants unless it can be shown that a less harmful alternative to achieve generation adequacy does not exist.”

EPPSA would like to point out, it should be stressed that the costs of a less harmful alternative should be calculated in a transparent and holistic manner including the cost for back-up power and the interconnection requirements. However, EPPSA is concerned that these statements go beyond technology neutrality and therefore need to be removed.

The intermittent nature of RES makes it a reasonable to assume that a system with 80% RES supply may require approximately 300% surplus installed RES capacity. In turn this may lead to only 15-25% of supply being secure. While energy storage can be expected to provide an additional contribution to the secured short term supply, the bulk of secured supply – in the form of availability for flexible back-up and balancing – will still consist of thermal power, while the cross sector technologies take the role of the oversupply regulation.

For more information: Nicolas Kraus – n.kraus@eppsa.eu

The European Power Plant Suppliers Association (EPPSA) is the voice, at European level, of companies supplying power plants, components and services. EPPSA members, located throughout Europe, represent a leading sector of technology with more than 100 000 employees.

EPPSA actively promotes awareness of the importance of flexible and efficient, state-of-the-art thermal power generation and its crucial contribution to ensuring a clean, secure, and affordable energy supply.

EPPSA believes increased investment in Research, Development and Demonstration is a key factor in driving EU competitiveness as well as ensuring an affordable low emission power supply.

Virtually all thermal power plants in the EU are built by members of EPPSA or equipped with their components, and provide more than 50% of Europe’s electricity. EPPSA members provide the most advanced thermal power technologies in the world
