EASE Reply to the Public consultation on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG)

August 2021

EASE welcomes the revision of the Climate, Energy and Environmental Aid Guidelines (CEEAG) to align the State aid framework with the EU's ambitious decarbonisation targets and the European Green Deal. With the revision of the EEAG, the EU seeks to address challenge of ensuring a clear framework that supports decarbonisation in a cost-effective manner while maintaining competition and fair trade.

Overall, EASE supports the proposed enlargement of the scope of the guidelines to new areas (e.g. clean mobility, more forms of energy storage) and all technologies that can deliver the Green Deal, allowing higher aid amounts (up to 100% of the funding gap) as well as new aid instruments (e.g. Carbon Contracts for Difference).

EASE believes that appropriate levels of support through State aid should be allowed for energy storage technologies since their contribution to decarbonisation is already essential and will only become more so in the coming years. Providing valuable flexibility services at different grid locations and timescales, energy storage is essential to enabling the widespread deployment of renewable energy sources. Moreover, energy storage can play a vital role in supporting the transition of sectors that are particularly fossil fuels dependent or are hard to decarbonise. Grids are using more renewable energy to decarbonise and the effects of adding more intermittent renewable energy sources to those grids are creating characteristics which will require significant redress to stabilise and encourage further renewable energy penetration. These elements can be addressed by the introduction of energy storage technologies, and as a result energy storage support through State aid should have adequate safeguards against market distortions.

The importance of energy storage for the energy transition should be clearly reflected in the CEEAG. From this perspective, there are several shortcomings in the draft CEEAG that should be addressed:

1. **Energy storage solutions should explicitly be included in the scope of the CEEAG** with clear definitions:
    - ✓ Section 2.2 paragraph 15(a) of the proposed CEEAG should therefore read "aid for the reduction and removal of greenhouse gas emissions, including through support for renewable energy, energy storage, and demand response".
    - ✓ In addition, the definition of energy storage from the recast Electricity Directive (Directive (EU) 2019/944, Article 2) should be included under CEEAG section 2.4 on definitions. This is important to ensure that all energy storage technologies,

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including power-to-x, are covered under the CEEAG and to ensure that the CEEAG is aligned with the Clean Energy for All Europeans package.

- ✓ It is positive that the proposed CEEAG does not limit energy storage to 'electricity storage' connected to high-voltage transmission lines, which was the case in the current EEAG. We believe this broadening of the scope to allow all energy storage technologies and configurations (small-scale to large-scale, behind-the-meter or front-of-meter) is important.

2. **Energy storage should be more clearly emphasised under section 4.1** Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy:

   - ✓ Energy storage should be explicitly mentioned under section 4.1.2 paragraph 74 to reflect the growing importance of energy storage in supporting the cost-effective system integration of variable renewables. Section 4.1 should clearly recognise the need for more deployment of energy storage, including stand-alone and combined with renewable power plants, and other flexibility options as a complement to renewables deployment, especially as shares of variable renewable energy sources (vRES) increase and when new vRES generation directly displaces dispatchable fossil fuel generation.
   - ✓ Aid for energy storage and renewable/low-carbon hydrogen covering operating costs on top of investment costs may be needed. However, there should be sufficient safeguards in place to avoid undue competition distortion. Section 4.1.4 paragraph 103 should be adapted accordingly.
   - ✓ In order to support energy storage deployment in energy communities and in collective-self consumption the threshold for projects should be higher than mentioned in section 4.1.3.5. point 92 (b) (projects under 400 kW or under 200 kW from 2026 onwards). The current threshold is very low, as it does not include some renewable energy communities or collective self-consumption that may have a higher installed capacity, but do not possess means to compete in a bidding process in a level-playing field.
   - ✓ Regarding carbon contracts for difference (CCfD):
     - EASE views the introduction of two-way CCfDs positively (with the possibility for a payback period), as they can be a key instrument to support the uptake of clean solutions such as low-carbon and renewable hydrogen until the EU ETS can provide for a price to incentivise investments in renewable energy solutions. We would support the two-way CCfDs at the first stage to have separate auctions for renewables and low carbon hydrogen, alternatively to recognise a premium to renewable hydrogen.
     - However, EASE only supports the introduction of CCfD under specific conditions, since interactions between CCfD with the EU Emissions Trading System (EU ETS) could be problematic. For instance, CCfDs could lead to biased behaviours from the CCfD beneficiaries who could push to lower the EU ETS price to receive more funding. Policy overlaps between CCfD and the

EU ETS would have to be carefully considered to ensure a reflective carbon price. EASE underlines that a well-functioning EU ETS is essential to ensure an effective decarbonisation process. Therefore, CCfD must be carefully designed to avoid distortions.

- If well-designed, CCfD could play a role in incentivising investments in decarbonisation technologies. Where CCfD are introduced, they should pay the investor the difference between the costs of reducing one ton of CO_2 to produce a given product and the actual CO_2 price, e.g. the EU ETS price for sectors covered by the EU ETS. Carbon contracts should only be awarded via competitive bidding procedures, which must balance on the one hand the preference for technology neutrality while on the other taking into account that CCfD are based on "current abatement costs" of the technologies and do not take into account the long-term decarbonisation potential of such solutions. This de facto promotes solutions that may be more cost-effective today, to the potential detriment of solutions that in the longer term are more sustainable and will soon become competitive thanks to a sustained deployment. The contracts should be sector-specific, provided it is possible to have a competitive bidding procedure. They should apply only to investments that have a high emissions reduction potential and cover only sectors that are facing particular technological challenges to decarbonise.

3. **Barriers to the participation of energy storage in security of supply schemes should be removed** under section 4.8 Aid for the security of electricity supply:

   - ✓ It is positive that section 4.8 underlines the need for Member States to identify the regulatory or market failures causing the security of supply problem. Improving the energy market design and rapidly implementing the recast Electricity Directive and Regulation are important steps to enable energy storage to be rewarded for the flexibility and system services provided.
   - ✓ Section 4.8 article 299 requires Member States to provide the Commission with information on the various elements affecting security of supply, such as demand response participation, interconnections and grid infrastructure problems, and variable generation. In our view, Member States should also be required to gather and share information on energy storage deployment, including current and planned projects, as well as measures to encourage participation of energy storage in markets.
   - ✓ Section 4.8.4.3 clearly states that energy storage should be eligible to participate in security of supply aid measures. One of the barriers that is seen in some EU capacity markets is the application of high de-rating factors, which tend to be stricter for energy storage than for demand response. When designing security of supply measures, Member States should enhance transparency and incentivise stakeholder engagement in the development of derating factors methodologies for energy storage. Moreover, the requirements should be similar for demand response and storage providers, as long as they have similar performance.

4. **The value of flexibility should be better reflected in aid to energy performance of buildings (Section 4.2):**

   - ✓ EASE welcomes energy storage solutions being eligible under aid for the improvement of the energy and environmental performance of buildings (section 4.2). However, the value of flexibility provided by storage should be more clearly emphasised in the scope and supported activities. The focus should not be only on energy savings potential of technologies, but also the ability of technologies to optimise energy demand of consumers and commercial & industrial players. The flexibility potential of buildings will become increasingly important in order to support the integration of variable renewables into the system. Therefore, we suggest to add to section 4.2.2 paragraph 115. as follows: "Aid may be granted for the improvement of the energy efficiency and flexibility potential of buildings." This would align the CEEAG better with the Energy Performance of Buildings Directive and its efforts to enhance the smartness and flexibility of buildings.
   - ✓ Section 4.2.2 paragraph 118 should include ways to measure not only the primary energy demand reductions, but also the increased flexibility potential or higher shares of self-consumption enabled by energy storage and other solutions. Aid intensities under section 4.2.4.2 should also take into account flexibility potential, rather than only being linked to the reduction of primary energy demand.

5. **EASE welcomes that aid for the deployment of recharging or refuelling infrastructure (Section 4.3.2)** explicitly includes stationary energy storage solutions to support the roll-out of charging infrastructure.

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About EASE

The European Association for Storage of Energy (EASE) is the voice of the energy storage community, actively promoting the use of energy storage in Europe and worldwide. It supports the deployment of energy storage as an indispensable instrument within the framework of the European energy and climate policy to deliver services to, and improve the flexibility of, the European energy system. EASE seeks to build a European platform for sharing and disseminating energy storage-related information and supports the transition towards a sustainable, flexible and stable energy system in Europe.

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Disclaimer

This response was elaborated by EASE and reflects a consolidated view of its members from an energy storage point of view. Individual EASE members may adopt different positions on certain topics from their corporate standpoint.

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