



# State Aid:

## Overview of French Scheme to Support Non-Fossil Technologies to Ensure Electricity Supply Matches Demand

Brussels, May 2024



# State Aid: Overview of French Scheme to Support Non-Fossil Technologies to Ensure Electricity Supply Matches Demand

## Preface

EASE has prepared an analysis of a new French state aid scheme, approved by the EU Commission on 21 December 2023. The scheme will dedicate €1.3 billion to support the development of non-fossil technologies to ensure electricity supply matches demand during times of peak consumption.

The scheme will be open to storage units regardless of their size. It will be open until 2026, when it is set to be replaced by a reformed capacity mechanism. Through the mechanism, the French authorities hope to reach an estimated 12.5 GW of intra-day flexibility by 2030.

The EASE analysis aims to help stakeholders understand the functioning of the scheme, including the eligibility requirements and aid offered.

## Table of Contents

|                                                  |           |
|--------------------------------------------------|-----------|
| <b>1. Background</b> .....                       | <b>4</b>  |
| <b>2. Analysis of the Measure</b> .....          | <b>5</b>  |
| 2.1. Duration of the Measure .....               | 5         |
| 2.2. Aid Offered .....                           | 5         |
| 2.3. Budget and Financing .....                  | 6         |
| 2.4. Competitive Tendering Process .....         | 6         |
| 2.5. Conditions for Participation .....          | 7         |
| 2.5.1. Eligibility criteria .....                | 7         |
| 2.5.2. Competitive tendering process .....       | 7         |
| 2.6. International Participants .....            | 8         |
| 2.7. Selection of Beneficiaries .....            | 8         |
| 2.8. Measures to Avoid Overcompensation .....    | 8         |
| 2.9. Compatibility with the EU Legislation ..... | 8         |
| <b>Source</b> .....                              | <b>10</b> |

# 1. Background

On 21 December 2023, the Commission approved with the decision SA.107352 a €1.3 billion French scheme to support non-fossil technologies to ensure electricity supply matches demand. The measure aims to promote the development of energy storage facilities, together with other non-fossil flexibility. While France presently does have a capacity mechanism in place, the French authorities concluded that it is not sufficient to address the variation of intraday consumption as it is not specifically aimed at supporting the development of carbon-free flexibilities. The new mechanism will ensure that supply and demand of electricity are kept in balance during peak times, especially in the winter and, as such, support the integration of intermittent renewable energy sources in the system. French authorities emphasise that they envisage the measure as key in the general decarbonisation of the French electric mix.

According to the French government, the existing mechanism could not be reformed for the 2024–2025 period because the market exercises have already started. France also maintained that the support scheme will accelerate the development of the storage sector. At present, the majority of projects are based on participation in the primary reserve which has a limit of 500 MW, already taken up to a large extent by battery projects. Therefore, without additional support, the development of energy storage would be significantly constrained. Furthermore, the facilities which have been subject to aid in the recent years could face closure in the absence of further support.

France intends to use the aid to reach the estimated aim of 12.5 GW of intra-day flexibility by 2030.

# 2. Analysis of the Measure

## 2.1. Duration of the Measure

The measure will run from the notification of the decision by the Commission until the first quarter of 2026, when the French authorities intend to reform the existing capacity mechanism.

## 2.2. Aid Offered

The scheme provides aid in the form of a direct grant, expressed in EUR, selected through a competitive bidding process. Aid will be granted to the operators who offer the lowest aid amount per offered capacity volume within the limits of the auctioned capacity.

The successful participants will be remunerated for:

- Reducing or modifying their consumption in the event of active demand participation or
- Providing previously stored electricity for storage units in order to meet the needs of the system

The level of unit support, expressed in EUR/MWh, offered to each participant will correspond with the price of the least competitive offer retained in the pool of beneficiaries, as per the 'Pay-as-clear' rule.

The aid offered will take the form of two-way contracts-for-difference (CfDs).

The contracts include a bonus of 20,000 EUR/MW which will be payable to beneficiaries who offer a price such that is proven to contribute to the reduction of consumption. Energy storage and demand response projects will be eligible for the bonus only in the case where they offer their availability at a marginal price below the payment schedule supplier in force for the period, increased by EUR 150/MWh. Therefore, to avoid purposeful underestimating of the price by beneficiaries, the amount of the bonus paid will decrease continuously and gradually beyond this value.

## 2.3. Budget and Financing

The maximum budget amounts to €1.319 billion. The estimate takes into account the price uncertainty of the capacity mechanism. It is predicted to be divided as follows:

| Delivery period                           | 2024        | 2025        | 2026        | 2027–2034 |
|-------------------------------------------|-------------|-------------|-------------|-----------|
| Estimated annual budget (millions of EUR) | 160.7       | 264.6       | 252.1       | ~ 80.2    |
| Estimated €/MW value                      | 53,567 €/MW | 55,125 €/MW | 43,466 €/MW | –         |

If a limited is reached in a given delivery period, the lowest ranked bidders are excluded from the call for tenders.

The measure will be financed in its entirety by the “public service charge mechanism of energy” (CSPE), the French tax levy on energy consumption payable by consumers in the form of their energy bills.

## 2.4. Competitive Tendering Process

Beneficiaries will be selected on the basis of a competitive bidding process. Aid will be granted to operators who offer the lowest amount of aid per volume of capacity offered within the limits of the capacity auctioned.

The offers submitted by the participants need to include the price from which candidates are ready to offer their availability during the periods when the balance of the electrical system is the most uncertain, and to promote the activation of their capacities for the entire duration of the contract (expressed in EUR), the volume capacity in MWh and the description of the activity, including the geographical location and the amount of aid needed for the activity.

Each tender will have the maximum bid price which has been set at €65,000/MW/year, based on costs of the candidate technologies. The ceiling has been raised from the initially intended €60,000/MW/year to account for the 2021–2022 inflation. Financial offers above the price ceiling will not be considered in the selection offers. A lowest price threshold will not be established.

The maximum annual tendered volumes will be as follows:

| <b>Delivery period</b> | <b>Maximum annual volume of tenders</b> |
|------------------------|-----------------------------------------|
| 2024                   | 3 GW                                    |
| 2025                   | 4.8 GW                                  |
| T1 2026                | 5.8 GW                                  |

Each call for tenders will be structured around 2 lots:

- a) Unit capacity less than or equal to 1 MW (mainly small storage units). They will obtain support contracts for a maximum duration of one year and four months.
- b) Unit capacity greater than 1 MW (mainly companies, industrial sites or large storage projects). They will obtain support contracts over a period which can last up to ten years.

The ten-year period is motivated by the need to ensure profitability of smaller capacities which face greater risks and to catalyse the emergence of the sector.

## **2.5. Conditions for Participation**

### **2.5.1. Eligibility criteria**

The scheme is open to operators of active demand response and storage units, both large industrial consumers and small residential consumers or tertiary services.

All demand response projects and energy storage systems that are likely to contribute to the development of low-carbon flexibility which will be available in 2024, 2025 or the first quarter of 2026 are eligible for the aid, provided they are operating in mainland France.

- Fossil-based capacity measures, i.e. fossil-fuel generators, are excluded from the scope of the measure
- Only projects for which the construction has not yet started at the time of the approval of the measure will be eligible for the aid.
- For the delivery period 2024, energy storage projects will not be eligible for the support. This is because, according to the French authorities, it would be impossible to develop a project in the limited timespan.

### **2.5.2. Competitive tendering process**

The participants need to be capable of developing low-carbon flexibilities in mainland France, regardless of the location of their head office.

## 2.6. International Participants

The scheme is not open to cross-border participants, since it would require checking the availability of capacities located in another state by the French authority, which is not legally feasible.

## 2.7. Selection of Beneficiaries

The beneficiaries will be selected on the basis of selection criteria which will be made public on the website of the Transmission System Operator upon the launch of every tender round and at least a one month before the deadline for the submission of final offers.

Least-cost criterion: The selection of supported projects is based on the lowest amount of the annual guaranteed revenues (Bid Revenue) requested by each project for the foreseen period expressed on a EUR/MW/year basis. The entries are selected in ascending order of Bid Revenue, starting from the lowest bid and moving to the next lowest bid, until the tendered capacity is exhausted.

## 2.8. Measures to Avoid Overcompensation

The French authorities will assess each project in detail, based on unit costs per MW and per MWh, along with total costs. This assessment allows comparison among similar projects, enabling the definition of standard metrics and the minimum necessary aid.

## 2.9. Compatibility with the EU Legislation

The Commission approved the French scheme upon assessment on the basis of Article 107(1) TFEU, 107(3)(c) TFEU

In detail, the conditions assessed by the Commission and its conclusions:

*(a) Positive condition: the aid must facilitate the development of an economic activity.*

- ✓ *Identification of an economic activity and positive effects of the scheme:* The mechanism supports a specific economic activity that is the development of non-fossil flexibility technologies, such as energy storage and demand response. With the increase of the intermittent renewable energy deployment, the measure seeks to balance supply and demand in order to ensure the safety of supply. The aim of the measure is thus to ensure energy security but also to support the development of the technologies concerned. On a larger scale, the measure will also contribute to the mitigation of climate change and bring positive environmental effects in line with the European Green Deal. Additionally, the measure is technology-neutral, allowing a range of non-fossil storage technologies to participate in the tendering process.



- ✓ *Incentive effect:* Without the public support, the beneficiaries would not maintain the current level flexibility capacities or invest in new ones.
- ✓ *No breach of EU law:* The supported activity, the scheme, and its conditions were found compatible with the internal market and the EU legislation in the energy sector.

(b) Negative condition: no distortion of competition in a way contrary to the common interest.

- ✓ Minimisation of distortions of competition and trade: The measure affects mainly the French electricity market and might affect neighbouring countries, in view of the cross-border interconnections. The following conditions are met:
  - *Necessity:* The scheme meets the necessity requirement. According to the study carried out by the French authorities, which calculated the volumes of electricity necessary to smooth the residual consumption curve in winter compared to a residual consumption “without any flexibility of demand or provided by storage”, without state intervention, the essential investments in energy storage capacity are not expected to occur within the timeframe required to achieve the desired objectives of energy security and flexibility of the electric system in accordance with the pre-established needs. The French authorities explain in particular that uncertainty over the expectation of future income. Furthermore, the main projects of market are based on participation in the primary reserve, the size of which is limited to around 500 MW and whose current battery projects cover already a large part of the need, blocking the development of energy storage.
  - *Appropriateness:* The scheme is an appropriate policy instrument to address market failures and finance the funding gap. At present, as most regulatory barriers for the participation of storage technologies in all market mechanisms in the open market, developing technologies struggle to withstand the competition of more mature energy sources. As such, the wholesale markets of electricity and the capacity mechanism do not allow the development of sufficient storage and erasure capacities to meet the needs assessed by the authorities. The scheme at hand will provide short-term flexibility to support increased penetration of variable renewable energy sources.
  - *Proportionality and Cumulation:* The tender process will be open, clear, transparent, non-discriminatory, and effectively competitive. The level of support corresponds with the factual needs. Additionally, necessary safeguards will be put in place in order to minimize the aid, namely the competitive bidding process open to all non-fossil technologies. The aid is not cumulative with other support schemes. Remuneration under the capacity mechanism is deducted from the amount of aid paid under the measure in order to avoid any accumulation of aid.
  - *Transparency:* The calls will be published by the Transmission System Operator on its website to ensure equal availability of information and the non-discriminatory nature of the selection process. Furthermore, France intends to

perform ex post evaluation of the scheme in 2024 to assess whether and to what extent the original objectives of the scheme have been fulfilled and to determine its impact on markets and competition. It will include the analysis of the number of candidates and beneficiaries, volumes by technology and contract type, the clearing price for each tender, and the annual expenditure level for 2024 along with the forecast for 2025.

- ✓ Limited risk of undue negative effects on competition and trade: The scheme seeks to limit the potential distortion of competition to the minimum by, inter alia, relying on capacity remuneration and opening the tender for all technologies, with the exclusion of fossil technologies. Finally, the anti-concentration rule of the tendering process combined with the incentive for maximisation of market revenues will serve to foster active competition.

The Commission found that the measure is designed to minimise competition distortion as the positive effects brought by it outweigh any potential distortive influence on the market. It concluded that the measure facilitates economic activities of energy storage and demand response in France while supporting the clean energy transition, and ensuring grid stability and societal benefits.

## Source

| Legislation/ decision                                                                                                                       | Competent authority | Issuance date | Description                  |
|---------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------|------------------------------|
| <a href="#">Decision SA.107352:</a><br>"France: Mesure de soutien aux flexibilités décarbonées de court terme en France par appel d'offres" | European Commission | 21.12.2023    | Approval of state aid scheme |

\*\*\*

#### About EASE:

The European Association for Storage of Energy (EASE) is the leading member - supported association representing organisations active across the entire energy storage value chain. EASE supports the deployment of energy storage to further the cost-effective transition to a resilient, carbon-neutral, and secure energy system. Together, EASE members have significant expertise across all major storage technologies and applications. This allows us to generate new ideas and policy recommendations that are essential to build a regulatory framework that is supportive of storage.

For more information please visit [www.ease-storage.eu](http://www.ease-storage.eu)

\*\*\*

#### Disclaimer:

This content 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.

\*\*\*

Contact: EASE Secretariat | [info@ease-storage.eu](mailto:info@ease-storage.eu)



**European Association  
for Storage of Energy**

Avenue Adolphe Lacombé 59/8

1030 Brussels | Belgium

Tel: +32 2 743 29 82

@EASE\_ES

[www.ease-storage.eu](http://www.ease-storage.eu)

[info@ease-storage.eu](mailto:info@ease-storage.eu)

