

bne-statement on

Draft ETS State aid Guidelines

This statement focuses on the draft guidelines' provisions relating to investment aid to highly efficient power plants.

Advocating the interests of new entrants to the German energy markets, we welcome the idea of favouring competition on the electricity generation market (paragraph 34). Only functioning markets will create strong incentives for economic and technological efficiency. For that reason the criterion of favouring competition needs to be universally applied; in our opinion it is highly unfortunate that EU-guidelines tolerate state aid supporting and prolonging oligopolistic structures.

For several reasons we strongly disagree with the provisions regarding CCS:

- 1) In Germany there is no legal framework for running a power plant using CCS-technology. For that reason, there will be no state aid amounting to up to 10% (paragraph 34) or 15% (paragraph 33) of the eligible costs in Germany.

This is a very disturbing implication since Germany is very ambitiously trying to decarbonise its electricity generation sector. The high ratio of renewable energies has already made it very difficult to build new conventional generation facilities, simply because they run much less hours than they used to. Most projects were abandoned for economic reasons.

But, at the same time, a certain number of conventional power-plants will be needed as complement for renewable generation, for both technological reasons and for reasons of availability. State-aid could be a means of making these investments feasible. However, the guidelines will effectively restrict aid to 5% which will hardly be enough to trigger investments.

- 2) The costly provisions spelled out in the definitions of „CCS-ready“ and „implementation of the full CCS-chain“ will make positive investment decisions even less likely.
- 3) At this point, CCS is not a commercially usable technology and it won't be by 2020 either. Experts suggest that this may have changed by 2030. If the guidelines are to „ensure that State aid measures will result in a higher overall level of environmental protection (reduction of greenhouse gas emissions)“ they need to ensure that power plants are being built that fit into an energy generation sector that is being transformed and complicated due to the integration of renewable energies.
- 4) CCS has so far been tested for generation facilities running more or less constantly. In contrast, power plants running as a complement of volatile renewable generation will need to be capable of quickly and frequently changing their mode of operation. For that reason, CCS is not the first technology that comes to mind when it comes to imagining the transition to decarbonised power generation, at least at this point.
- 5) Among the member states, very different conditions prevail. In some countries CCS will contribute to decarbonization, in others it won't – be it due to technological, economic or political reasons, including diverging levels of acceptance of CCS among the people. For that reason, state aid focusing on CCS will distort the European internal energy market. Sites for power plants will not be chosen based on competitive criteria but according to where state aid is granted.

In our opinion, the picture is much too complicated for politics to bet on certain technologies, especially when they are not even in a state of commercial usability. Our general suggestion is to not favour CCS or any other technology, but to allow for an undistorted competition of technologies. In addition, we believe that the ETS is a highly efficient instrument to internalize the costs of greenhouse-gas-emissions. For that reasons there is no need to include additional efficiency-thresholds in state-aid-programs.

These kind of thresholds can even be detrimental to the goal of reducing CO₂-emissions: In the near future we will need a lot of backup-generation-capacity necessary to quickly respond to fluctuation in renewable generation. The cheapest capable technology are gas-turbines. These facilities run at relatively low degrees of efficiency, but only a couple of hours each year. The vast amount of money needed to build highly efficient plants instead can be invested in measures with much higher ecologic return. To sum up: 1) Efficiency is already incentivised, 2) Efficiency is not the only criterion when it comes to generation facilities supporting the transition towards a decarbonized generation sector. Consequently, the only criterion for state aid should be, that it favours competition.

Since for legal reasons, excluding efficiency indicators seems to be beyond the scope of the guidelines we suggest to delete paragraphs 33, 34 and 35 in favor of the following new paragraph 33:

33. For new highly efficient power plants for which aid is granted after a genuinely competitive bidding process (based on clear, transparent and non-discriminatory criteria) that favours competition on the electricity generation market, the aid must not exceed 15 % of the eligible costs. Such a bidding process must be non-discriminatory and provide for the participation of a sufficient number of undertakings. In addition, the budget related to the bidding process must be a binding constraint, in the sense that not all participants can receive aid.