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Next Generation EU and MFF - 5 Enablers to Deliver Recovery and Energy Transition

Eurelectric reaction paper

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Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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Distribution & Market Facilitation Committee
Markets & Investments Committee
Customers & Retail Services Committee
Generation & Environment Committee
Electrification & Sustainability Committee

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The COVID-19 crisis has inflicted significant costs on our societies and led to unprecedented economic and social consequences, confronting our world with some of its deepest vulnerabilities.

During the crisis, the EU power sector has delivered a substantial contribution to societies, powering essential infrastructures, which have been able to remain fully operational. Yet, investments in infrastructure and power generation have declined due to a drop of demand, lockdown restrictions and temporary disruptions in the supply chain. Today, as the EU aims at building a sustainable and efficient economic recovery, the power sector can significantly contribute to the economic growth dynamic, provide non-relocatable qualified jobs, reduce GHG emissions and bolster the EU's industrial leadership.

Eurelectric welcomes the ambitious Recovery Plan for Europe proposed by the Commission, the European Council conclusions of July 2020 and the strategic guidance detailed in the Annual Growth Strategy 2021. In view of the current inter-institutional discussions, and while awaiting the final approval of the European Parliament, Eurelectric calls on the institutions to consider the following enablers and concerns.

Five key enablers to deliver on the Next Generation EU (NGEU)

1. **The recovery package provides the unique opportunity to speed up the climate transition to climate neutrality by 2050 while at the same time reigniting the EU economy**. Next Generation EU instruments should channel and prioritize investments in structural infrastructure assets, which provide the most of climate and economic benefits,[1] such as smart electricity grids, electric cars' charging infrastructure and renovation of buildings. A robust pipeline of projects[2] with the potential to deliver significant green investment within the next 2 years exists, however it requires some additional support.

2. **A robust and revised methodology should be set in place to make sure flows of funding are invested in projects with tangible climate benefits.** We support the clear orientation towards both digital and climate transition of this package, in particular through defining a 30 % climate target applied to the overall climate spending. According to Bruegel[3], this entails that, between 2021 and 2027 around EUR 547 billion will be made available for the green transition.

3. **Investments in clean and sustainable projects will speed up if regulatory obstacles to faster project permitting are addressed**. In some regions, the expansion of renewable power has stalled significantly, reaching the lowest level in 20 years in 2019, mainly due to permitting regulation issues. Slow and complex permitting processes across Europe have a very negative impact on the building of RES capacity and undermine investment certainty. Flexibility potential within procurement law should be used to speed up investments.

4. **Private investors should be incentivised by the recovery plans to invest and provided with robust price signals** e.g., robust ETS and effective carbon pricing. Private funding will play a

[1]-Cameron Hepburn, Brian O'Callaghan, Nicholas Stern, Joseph Stiglitz and Dimitri Zenghelis, Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change? Oxford Review of Economic Policy, Volume 36, Issue Supplement_1, 2020, Pages S359–S381

[2] According to EY Green Recovery Report, there are 374 energy projects worth 75bn investments and 217 transport projects worth 87bn investments that will reach financial close in the next 24 months. EY estimate to capture 10% of green projects being currently developed and 10% of annual investment in VRES generation.

[3] https://www.bruegel.org/2020/07/is-the-eu-council-agreement-aligned-with-the-green-deal-ambitions

major role in the financing of the energy transition and, with adequate measures implemented, will contribute to the deployment of the projects envisaged in the recovery plans. Eurelectric's estimations[4] show that more than EUR 100 billion should be invested per year by 2050 in clean generation and storage, in addition to the required infrastructure investments. Public funds will be crucial in the short term to address the financial impact of COVID-19 crisis and mitigate risk concerns from private investors in the long run. But they would alone not meet substantial investments needs to completely decarbonise the power sector.

5. **Consistency between the upcoming recovery and resilience plans, National Energy and Climate Plans (NECPs) and Just Transition Plans must be ensured to maintain a coherent approach and adequate scope.**

Key concerns and suggestions for improvements of NGEU and MFF

Despite the positive and transformative potential of the proposal, Eurelectric urges the EU institutions to consider elements that may weaken the full potential of the package:

1. **Eurelectric regrets the removal of the Solvency Support Instrument and the lack of clarity around the outcome of the proposed Strategic Investment Facility.** Both instruments had the potential to bring positive effects to the resilience of supply chains both in the short and long term. This could have been achieved by mitigating the shortage of workforce and raw materials, as well as bankruptcy of small subcontractors for renewable and distribution supply chain for instance. The Strategic Investment Facility should be maintained.

2. **The EU electricity industry would like to highlight the challenging timeframe of the national recovery plans**, which require identification of projects between October 2020 and April 2021, with legal commitment made by the end of 2023 and payments settled before the end of 2026. The proposed timeframe may fail to capture all eligible projects given the long development processes in the electricity sector. **Clarity is needed on the criteria related to the maturity of projects when submitted by the Member States** (e.g. financial close, completion date, issue of permits etc…). Considering the strategic dimension of these projects, the allocation of the funds should be done based on market principles to avoid any distortions, while ensuring that these funds are made available to the Member States smoothly and in a timely manner.

3. **The reduction of the envelopes within the EU flagship programmes Horizon Europe and Connecting Europe Facility might delay the pace of deployment of clean energy related innovation projects and the needed infrastructure** (interconnectors, smart grids) to integrate the increased renewable generation. The trend should be reversed and the ambition increased. Both programmes have provided key benefits to the Union and will continue to play a critical role in establishing a resilient infrastructure powered by the state of the art technologies. Only with an adequate investment in research, development and innovation, from both the private and public sectors, clean technologies and services can be developed and deployed.

4. **The significant cuts in the funds dedicated to InvestEU may attract less private investment into both risky and structural projects for the green and digital transition** and therefore reduce the leverage effect. Institutions should thus step up the ambition on the fourth investment window related to sustainable infrastructure and give priority to grid infrastructure, renovation of buildings and renewable energy projects. InvestEU has proven to be a cost-efficient tool to provide confidence to investors with a limited amount of public resources.

[4] Eurelectric, E- Invest report, 2019

5. **The decrease of ambition of the Just Transition Fund may negatively impact the ability to ensure social inclusiveness and political acceptability of the green transition**. The budget should be increased and adapted to the needs of the Member States and the eligible projects should be co-financed from the Fund up to 85% of relevant costs in order to benefit the most vulnerable regions, as proposed by the European Parliament.

1. Specific remarks on the NGEU and related programmes and suggestions for improvement

a. Recovery and Resilience Facility (RRF):

- Eurelectric welcomes the architecture and ambition of the RFF, which is the key tool of the NGEU and therefore plays an essential role in the recovery. By mobilising resources quickly and sensibly, the RFF will address the economic and social consequences of the economic slowdown while contributing to the achievement of the Green Deal objectives.

- Eurelectric welcomes the strategic guidance proposed by the Commission and the seven flagship initiatives, in particular the Power Up, Recharge and Renovate areas. An additional area to be included is the electricity grid infrastructure, which is the main enabler and the missing link between these key initiatives.

- In order to **make sure that the recovery funds contribute to the cost-effective decarbonisation of the economy,** Eurelectric calls on the EU institutions to take the following features into account:

    - Effective contribution to the green and digital transition should be ensured: whilst the wide coverage and allocation criteria[5] of the fund could be considered as an asset, it also entails a risk to dilute the ambition of a green and digital transition. We welcome the Council wording on the green and digital transition being a "prerequisite of a positive assessment"**.** Yet, policymakers should work towards making the **definition of green and digital transition more detailed** and descriptive in order to ensure visibility and certainty for project promoters. The GHG emissions reduction intensity should be the guiding selection criterion.

    - National recovery and resilience plans will need to effectively contribute to the green transition, namely the achievement of the EU energy and climate targets. Member States should refer to NECPs to select the projects for their recovery plan. This would speed up the assessment of the Commission and reduce the time spent and complexity of the process in the identification of projects. The coordination between the Member States should be ensured for certain types of structural and capital intensive investments (e.g., hydrogen networks or grid investments) to avoid market fragmentation.

    - In order to ensure the success of the energy system transition in the short-, medium- and long-term, the **RRF should apply a technology-neutral approach**, and ensure the most cost-efficient investment framework for achieving our climate and environmental targets. While remaining open towards various technologies, the RRF should drive investments **into carbon-neutral and low-carbon energy sources and infrastructures**. They are the best and most cost-effective route to economic recovery on a national and supranational level while they also ensure the foundation for a secure and sustainable energy system.

[5] So far: growth potential, job creation and economic and social resilience.

- The Member States and the Commission should also take into account the need for a system approach: the possibility should be included to evaluate technologies based on their ability to support a system integrating high shares of variable RES therefore contributing to security of supply. Additional large scale projects in the power sector should be promoted as they allow for a faster green transition due to their scale.

- The **timeline for eligibility should be more flexible for the energy sector projects**, as the short timeframes foreseen for the allocation could make it hard to identify a robust pipeline of eligible projects. Energy projects are by nature long-term oriented and require a significant amount of time before the investment decision is made. Many projects may not meet the strict deadlines of 2023 to be eligible, therefore evident benefits of implementing them may be forgone.

- **Main driver of a successful projects' rollout is certainty on the timing for allocation of funds**. It is crucial that the process does not entail too many bureaucratic hurdles for project promoters.

- While the EU taxonomy should be a reference for the use of the recovery funds, the detailed criteria of the EU Taxonomy Regulation in the delegated acts are still to be agreed and adopted for the various economic activities. Shortcomings remain in the current non-binding recommendations of the TEG that should be addressed first in the upcoming delegated acts prior to assessing, which use it might have for the public sector. For this reason, **we invite the EU institutions to carefully consider the role of the Taxonomy in the future selection and allocation of funds** to ensure that the main driver towards a clean energy transition is not impaired by overly restrictive criteria. Once the framework has been fully defined, further reflections on the relevance to extend its scope should be made, taking into account the EU acquis in this domain.

b. InvestEU

- Eurelectric regrets the decision to significantly **cut the funds dedicated to InvestEU from EUR 30.3 billion to only EUR 5.6 billion considering** its proven efficiency and significant support brought towards energy infrastructures projects[6].

- Eurelectric would like to stress the key role of InvestEU in filling in the gaps in available instruments and leveraging private funding on both risky and structural projects for the green and digital transition (for instance reducing the carbon footprint of EU energy grids). InvestEU represents the adequate tool to provide confidence to private promoters to invest with a limited amount of public resources.

- The reduction of the envelope would bring two negative consequences:

    - **First, it might reduce the capacity of the European Investment Bank to commit to riskier** and more rewarding green and operational projects, undermining its objective to become a Climate Bank.
    - **Second, it will reduce the efficiency of investments and the leverage effect.** Numerous policy objectives might lead to a situation where the programme will spend too little rather than too much. It might delay the realisation of structural projects or

[6] EUR 10 billion (21% of EFSI total guarantees between 2015-2020) were allocated to energy projects, with EUR 1.1 billion to electricity grids and EUR 5 billion to renewable electricity generation.

increase the burden borne by project promoters or taxpayers (e.g., tariff increase for grid infrastructure).

- **In order to make the most of the funds, key aspects should be carefully considered**:

  - The EIB Board should seize the opportunity of capital increase as laid down in the Council conclusions to boost its financial lending capacity and mitigate the decrease in budget commitments.

  - EU institutions should **increase ambition on the fourth investment window related to sustainable infrastructure**. Depending on the final budgetary arbitrage, **there could be some merit in refocusing the priorities of the programme in the fourth window.**

  - **The following strategic projects should be prioritised**: electricity grid infrastructures, district heating and cooling networks, major renovation projects, renewable energy projects, charging infrastructure for alternative fuels, digital projects.

- Eurelectric calls upon institutions to maintain the **Strategic Investment Facility which laid down the foundations for the emergence of the EU strategic industries and value chains**. Supporting private initiative in developing EU supply chains and technologies for the future is pivotal for strengthening the European autonomy. The removal of such facility would send a negative signal in the context where the increasing dependency of Europe on foreign value chains and raw materials has become a wider shared concern. Necessity of building and strengthening the European value chain has been demonstrated by temporary delays in the supply of products and components for i.e. RES installations during the COVID-19 outbreak. Eurelectric calls upon the institutions to step up the efforts **towards a common definition of strategic industries while equipping them with tailored support.**

c. Just Transition Fund (JTF)

- Eurelectric regrets the decrease of the JTF ambition from EUR 40 billion to EUR 17.5 billion, especially considering the importance of the instrument for social inclusiveness and political acceptability of the green transition.

- The JTF should be fuelled with “fresh money” and the proposed transferring mechanism should be optional. Mandating a transfer from other cohesion funds could discourage local authorities to apply for the fund or reallocate resources that are already committed for other essential projects. The eligible projects should be co-financed from the fund up to 85% of relevant costs in order to benefit the most vulnerable regions, as proposed by the European Parliament.

- Eurelectric calls for a swift implementation of the JTF. A streamlined accessibility to funding, coupled with a timely preparation of the territorial just transition plans by the Member States, are essential for the projects to contribute to a fair transition and a green recovery.

- In order to make the most of the funds, key aspects of the JTF architecture should be carefully considered by the institutions:

  - <u>The beneficiaries:</u> The JTF should prioritize the areas that need support the most, including highly carbon-intensive regions and those with a GDP per capita below the EU average, as well as islands and outermost regions.

- Large enterprises can significantly contribute to the energy transition as they are the largest employers in transforming sectors of the economy in many regions. The wording and conditions on the possibilities for projects of enterprises other than SMEs to be considered under the JTF are still ambiguous and do not provide clear signals for the right investments.

- The scope of eligible activities: The funds should focus on the energy aspects of the transition and support in energy related infrastructure, such as the deployment of renewable, smart, electric-based solutions. Activities such as environmental remediation and energy-related repurposing projects (including regeneration and decontamination of sites, land restoration, etc.) should also be included in the scope of support.

- The JTF should exclude the activities that delay the move towards climate neutrality and transition away from fossil fuels. In order not to create lock-in effects, the funds should not support new projects or installation of new infrastructure based on fossil fuels, including natural gas.

2. Specific remarks on MFF

- Eurelectric regrets that the Council agreement has been reached at the expense of the cuts in major EU programmes that provide important support in facilitating the green transition such as:

  - The decrease of the CEF Energy envelope (EUR 5.1 billion) will negatively impact investment in infrastructure (interconnectors, smart grids) and cross-border renewable projects that are crucially needed in the context of energy transition.

  - The decrease of the Horizon Europe budget line (now EUR 80.9 billion vs EUR 86 billion proposed by the European Commission and EUR 120 billion by the European Parliament) sends a negative signal in an arena of fierce international competition. Horizon Europe was a large contributor to clean energy related innovation projects. Only with an adequate investment in research, development and innovation, from both the private and public sectors, clean technologies and services can be developed and deployed at scale.

- Eurelectric urges the institutions to reinforce the ambition for Connecting Europe Facility for Energy and Horizon Europe.

- Eurelectric welcomes that the ambition is maintained for:

  - CEF Transport: it will benefit electrification of transport modes, especially e-mobility infrastructure deployment and alternative fuel infrastructure.

  - Digital Europe Programme ambition – aiming at developing cutting edge technologies such as AI and blockchain that have a great potential in the energy sector.

- Eurelectric urges the institutions to reach a timely agreement in order to speed up the national planning and definition of the partnership agreements.

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Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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