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CISAF price relief schemes for energy intensive users

Eurelectric recommendations

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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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WG Wholesale Market Design & Investment Frameworks
WG Industrial Competitiveness & Innovation
WG RES & Storage

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The recently adopted *Framework for State Aid measures to support the Clean Industrial Deal* (CISAF) allows Member States to provide electricity price reliefs for energy intensive industries (EIIs). The European Commission is expected to issue further guidance on how to design national schemes according to CISAF on section 4.5. This paper provides the power sector's views on how to design them while minimising distortions in wholesale electricity markets.

Eurelectric recognises the competitiveness challenge faced by European EIIs. It is a multifaceted one that includes product overcapacities generated in third countries, regulatory burden and energy costs.

I. Measures that should take priority over temporary state aid under the CISAF

Short-term measures to address electricity costs as a competitiveness challenge should focus first on

- reducing national and local electricity taxes (e.g. to the EU minimum), VAT rates, and levies;
- removing (hidden) charges from the electricity bill unrelated to the electricity system;
- compensating network fees ex-post while ensuring that network costs are still fully recovered and avoiding cross-subsidisation (cost-reflectivity);
- maximising budgets for compensating indirect emission costs.

Additionally, as a European solution, the Industrial Decarbonisation Bank represents a valuable option to support companies without interfering in electricity markets. It provides financial support to decarbonise and electrify production processes, therewith alleviating beneficiaries' competitiveness concerns. The Bank should be institutionalised and go beyond the pilot auction that focuses particularly on process heat.

Lastly, an increasingly decarbonised electricity mix is expected to drive down wholesale prices, reducing reliance on fossil fuel imports and the associated carbon cost component. To achieve this, the power sector is undertaking transformative efforts to reach net-zero emissions around 2040. This transition requires a sustained scale-up of investments in clean generation, which in turn depends on predictable and stable revenue frameworks.

In this context, long-term instruments such as Power Purchase Agreements (PPAs) or Contracts for Difference (CfDs) are vital tools for ensuring price stability as well as accelerating the roll-out and passing on the benefits of renewable and low-carbon electricity to consumers. The uptake of PPAs should be facilitated through EIB-backed guarantees to mitigate counterparty credit risks.

These approaches should take priority, with temporary state aid under the CISAF considered only if other options prove insufficient to address competitiveness and to advance industrial decarbonisation.

In such cases, the CISAF provides a clear basis for action. It enables Member States to grant temporary subsidies to industries exposed to international competition to alleviate high electricity prices (Section 4.5).

The framework stipulates in point (120) the maximum aid amount allowed that is ‘proportionate’:

- at most a reduction by 50% of the yearly average wholesale market price;
- for not more than 50% of the beneficiaries’ annual electricity consumption;
- with a floor price of 50 EUR/MWh for the eligible consumption.

Also, it sets out reinvestment requirements in electrification and decarbonisation (see points (121) – (123) of the CISAF section 4.5.4 on ‘contribution to decarbonisation’).

However, it does not prescribe how the aid amount must be calculated or determined as long as it respects the maximum aid conditions mentioned above. This gives Member States discretion in the design of their aid schemes, e.g. whether to apply mechanisms ex-ante or ex-post, or whether to use the forward or spot market price as a calculation basis.

II. Form and calculation of state aid

First, Eurelectric recommends that Member States refrain from aid scheme concepts that directly or indirectly interfere in the formation of market prices, namely the marginal pricing system. This would otherwise adversely affect the efficient dispatch of generation assets, investments in renewables and low carbon assets, hedging, PPA markets, and demand flexibility.

Second, Eurelectric recommends that the calculation of the subsidy does not take the wholesale market price as a basis to avoid those negative impacts, in particular a simple reference to average day-ahead prices would be counterproductive. Instead, other quantitative indicators or metrics should be used that adequately consider the root factors defining industries’ competitive disadvantage and that are detached from the wholesale market price.

However, if Member States choose to use the wholesale market price as a reference for designing a support scheme, they should choose the forward market price or futures price or a composition of wholesale market prices instead of the spot market price. This would reduce the negative impacts on hedging and demand flexibility.

III. Design elements for state aid measures under the CISAF

We recommend the following design elements and principles for any measure under the CISAF:

Incentivise further decarbonisation and electrification

Beneficiaries should reinvest parts of the aid received in line with (121) of the CISAF. Possible measures:

- Invest in decarbonisation and direct electrification of production processes and existing and new production facilities
- Install storage solutions or new renewable and low-carbon energy capacity
- Invest in energy efficiency measures
- Invest in increasing the ability for implicit and/or explicit demand response
- Invest in required network reinforcements or grid connections

Accompanying investments into RES and low carbon assets should follow a system integration approach as stipulated in the EMD reform, meaning that these investments are market and system supportive. This includes incentives for investments or agreements that encourage or benefit demand and supply matching.

Effectiveness of improving competitiveness for industrials

This could be measured in various ways, for instance, whether the subsidy

- contributes to reducing electricity costs;
- gives the beneficiary direct access to clean or low carbon electricity;
- reduces reliance on fossil fuels used in production processes.

Maintain exposure to market prices to promote effective hedging and flexibility

- To preserve incentives for industrials to hedge, the subsidy must only be granted to a portion of the beneficiary's total electricity demand. In other words, it must not provide a perfect hedge in the form of a guaranteed price of x EUR/MWh, and be separated from their procurement and hedging strategy, e.g. in the form of a lump sum.

- Similarly, to preserve incentives to be flexible and invest in flexibility solutions, the subsidy must only be granted to a portion of the beneficiary's total electricity demand. In other words, it must not provide a perfect price hedge for the subsidised volume to allow the price signal to reach the consumers.

Transparent & efficient allocation of the temporary subsidy

- If applicable, the support mechanism could be implemented through a competitive bidding, tender, or auction process, subject to clearly defined eligibility criteria. These could require that the amount of the subsidy is linked to the beneficiary achieving targets for energy efficiency, electrification, decarbonisation etc.

- Provide a clear phase-out date.

Technology neutrality

The eligible investment activities mentioned in (121) - (123) of the CISAF section 4.5.4 on 'contribution to decarbonisation' should include all renewable and low-carbon technologies.

Role of market players should be preserved

- No single entity or market player should take over a market function and exclusively benefit from a subsidy.

- The administration of the CISAF schemes should be carried out by a competent public authority, not by electricity suppliers or intermediaries. This means that suppliers should not be burdened with the implementation, cash flow, or reporting obligations related to the aid etc.

Avoid cross-subsidisation

The financing of the price relief should not come at the expense of other final electricity consumer groups, i.e. not be financed through additional levies on their electricity bill. Otherwise, this risks making electrification more expensive for these consumer groups.

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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