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## **FOSG response to the EC draft Guidelines on environmental and energy State aid for 2014-2020**

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### **About Friends of the Supergrid**

Friends of the Supergrid (FOSG), founded in 2008, is a European industrial alliance that advocates for the creation of a pan-European, integrated high-voltage direct current electricity network. The organisation represents a group of companies from across the electricity generation and transmission value chain. We combine companies in sectors that will deliver the High Voltage Direct Current (HVDC) infrastructure and related technology, together with others that will develop, install, own and operate that infrastructure.

### **FOSG Response to the draft guidelines on environmental and energy state aid for 2014-2020**

Friends of the Supergrid (FOSG) welcomes the possibility to comment on the paper of the European Commission Services of DG Competition containing the draft guidelines on environmental and energy aid for 2014-2020. Our response focuses on energy infrastructure and generation adequacy related issues (sections 5.8 and 5.9).

#### *5.8 Aid to energy infrastructure*

FOSG welcomes the positive message of the draft guidelines on environmental and energy aid regarding cross-border energy infrastructure projects and Projects of Common Interest (PCIs), as defined on the basis of Regulation 347/2013. The energy infrastructure regulation and the creation of the PCI list and funding programmes, such as the connecting europe facility, will help to develop a pan-European electricity grid and are essential in laying the foundation for the European supergrid. The PCIs represent a concrete step towards the implementation of a Supergrid that will optimise Europe's energy sector and supply secure, affordable and low-carbon power sources across the continent. FOSG also highlights that the scope of the draft Guidelines on environmental and energy aid regarding energy infrastructure should not be limited to those Projects of Common Interest, as defined on the basis of Regulation 347/2013 but to all the infrastructure projects that meet the requirements of the draft Guidelines and have a positive impact on the achievement of the 20-20-20 targets (e.g. TYNDP projects).

FOSG supports the transition towards a low carbon energy sector for Europe and believes that this transition should take place in the most cost-effective way as possible. As such, FOSG shares the Commission's view that modern energy infrastructure is crucial for the creation of competitive energy markets and to enable the Union to meet its broader climate and energy goals. We also share the view that energy infrastructure is a precondition for a functioning internal market and that state aid to develop this infrastructure strengthens the internal energy market and achieves objectives of common interest.

In this respect, the development of a pan-European transmission network would help to optimize the energy mix across Europe, integrate RES and achieve the EU's triple target of 20% carbon emissions reductions, 20% renewable energy and 20% increases in energy efficiency by 2020. An integrated, single European market will also be a prerequisite for fulfilment of 2030 targets and goals.

The European Network of Transmission Operators for Electricity (ENTSO-E) believes that the coverage and capacity of existing grids may not be adequate for the anticipated volumes and location of future electricity generation and demand. In the 2012 Ten Year Network Development Plan, it is estimated that 45,300 km of new transmission lines are required for Europe to meet its renewable energy targets alone, much of which must be cross-border, and 18,200 km and 21,900 km are required for internal market integration and security of supply respectively. An efficient, interconnected network should also include nodal connections, i.e. transmission networks that split off to connect into multiple jurisdictions, which it currently lacks. We believe the EU and member states could reasonably take more action to hasten the development of the single market and the construction of physical interconnector projects and that these actions should be permitted under the new guidelines.

As the Commission notes, state aid is sometimes required in the presence of market failures, which can include asymmetric information, coordination failures, and positive and negative externalities. These failures are particularly evident in cross-border energy infrastructure, which is an inherently monopolistic sector and where prior efforts to incentivise the single market have failed to stimulate sufficient investment in physical interconnectors. We applaud the Commission's recognition of these residual and structural market failures and its proposals to permit state aid for electricity interconnectors in cases where it is appropriate and proportionate.

### *5.9 Generation adequacy*

Expanded interconnection capacity will allow Member States to purchase electricity from other states when it is more affordable, thereby reducing energy bills for consumers and industry. It will also allow for the more efficient use and integration of renewable energy by reducing costs associated with balancing the system and providing back-up capacity in times when power demand and supply are out of synch. This will reduce the need for national capacity mechanisms and expand the scope for renewable energy generation and reduce its costs.

This is why FOSG considers it essential to ensure that Member State capacity mechanisms take into account the role of existing and future cross-border interconnectors to ensure adequacy and therefore their contribution to those

mechanisms. Furthermore, Member States should be encouraged to assess, at regional level, the possibility to allow capacities of neighbouring countries to participate in capacity mechanisms, as long as the interconnection capacity exists or will exist by the time power provision is needed.

We welcome the guidance in section 5.9 that requires the state to take into account:

- *'participation by operators from other Member States where such participation is physically possible, i.e. where the capacity can be physically provided to the Member State implementing the measure and the obligations set out in the measure can be enforced'* 5.9.6(218)(b)

And where it suggests state aid measures should:

- *Not reduce incentives to invest in interconnection capacity* 5.9.6(219)(a)

Should you require further clarification on any of our comments, please do not hesitate to contact us.