

## T&D Europe<sup>1</sup> Position on the Revision of the EU ETS Directive (COM(2015) 337 final of 15 July 2015)

Brussels, 13 July 2016

### Introduction

The Commission proposal for a revision of the 2003 Directive “to enhance cost-effective emission reductions and low carbon investments”, presented on 15 July 2015 (COM(2015) 337 final) is currently under discussion in the European Parliament and in the EU Council. T&D Europe offers the following comments to the debate, focussing on what it considers as essential for the manufacturers of technology for the electricity grid, namely the contribution of the EU Emissions Trading Scheme (EU-ETS) to investments in low carbon technologies.

### 1. Background

The current EU ETS Directive sets two principal objectives: (1) reducing GHG emissions at lowest cost, and (2) incentivising lower carbon technology through a CO<sub>2</sub> price signal. The EU ETS has contributed to emissions reduction but has not triggered the expected investment in low carbon technology.

In particular, the funding programme for innovative low carbon technology - the NER300 - suffers from administrative complexity and rigidity of process that should be addressed when designing the rules of the new funds, especially the future NER 400 Innovation Fund.

### 2. Principles for an effective reform

T&D Europe proposes that an effective reform should include strong support for innovation and decarbonisation: establishing dedicated Innovation and Modernisation Funds is of critical importance to help achieve the EU’s climate change objectives.

In addition, by directly financing future innovative low carbon technology projects, the Funds will positively contribute to the EU’s global leadership position in this sector. However, it is important to ensure that the lessons learned from the operation of the NER300 programme are taken into account when establishing these Funds.

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<sup>1</sup> T&D Europe ([www.tdeurope.eu](http://www.tdeurope.eu)) is the European Association of the Electricity Transmission & Distribution Equipment and Services Industry, which members are the European National Associations representing the interests of the electricity transmission and distribution equipment manufacturing and derived solutions. The companies represented by T&D Europe account for a production worth over € 25 billion EUR, and employ over 200,000 people in Europe

### 3. NER400 Innovation Fund

The future Innovation Fund should be built on the following elements:

- **Flexibility:** the NER 400 Innovation Fund should be significantly more flexible than the NER300. This should apply on multiple levels, from the administrative complexity, right through to the eligibility criteria for technology categories. Moreover, there should be as much flexibility as possible in the number of allocation rounds and allowance auctions, to maximise the auction revenues and therefore the total funding available.
- **Sustainability:** projects awarded funding should be compatible with the Paris Agreement and the EU 2050 Roadmap, taking into account the 2030 objectives and anticipating longer-term energy and climate goals.
- **Risk sharing:** increasing the funding rate to 60%, as well as providing up to 40% of funding based on key intermediate (engineering) milestones, achieved before the project is operational will help address and improve project risk management. To successfully deploy a project, the right level of funding is as crucial as their timeliness and modalities.
- **Driving innovation:** it is important to extend the scope of the fund to low-carbon innovation in industrial sectors, as this will facilitate a system approach, which is ultimately the only way to decarbonise the economy in a cost-effective way. Projects to be funded should encompass the prototype phase and encourage a system approach and the progressive integration of the digital component that will foster the transformation of the entire value chain. The ultimate goal should be to support projects and innovative business models that enhance the efficiency, cost-effectiveness, resilience and sustainability of the overall system.
- **Bridge funding:** using 50 million allowances for bridge funding up to 2021 is a key mechanism which, together with the unspent money of the NER300, is essential to maintaining momentum on technology development. It should therefore be implemented as soon as possible - to enable a call in 2017/18 - and should be based on the same principles as the design of the Innovation Fund.
- **Complementarity & clarity:** projects must be able to benefit from a combination of financing instruments, including the Modernisation Fund, the Connecting Europe Facility, and the ESI and EFSI funds. For the purpose of facilitating accumulation of funding, the terms and conditions as well as the timelines for awards of all relevant funding, but in particular the Innovation and Modernisation Funds, should be synchronised. Moreover, financing as part of the fund should be connected with other means of national support and clear guidance should be provided upfront concerning state aid provisions.

## 4. Modernisation Fund

Member States beneficiaries of the Modernisation Fund not only require significant upgrades to their electricity infrastructure, but also still depend heavily on fossil fuels in their whole economy, including power and industrial sectors. A greater effort to modernise energy infrastructure in these countries is therefore needed. Accordingly, providing for a Modernisation Fund to support investments in energy infrastructure in these Member States is of significant importance. The system should prioritize support for projects that contribute to the creation of a more resilient energy system, particularly through electrification and digital integration.

- Large-scale projects to be supported as matter of priority: given the significant dependence on fossil fuels and the pressing need to reduce carbon emissions, the Modernisation Fund would be most efficient if used primarily to fund large-scale projects. In fact, such projects are more capital intensive, but can have a broader impact and therefore make better use of public money.
- Role of the European Investment Bank: the EIB will play a crucial role in ensuring the successful implementation of the Modernisation Fund. The EIB should have a prominent role in determining the selection criteria and in the projects selection process.
- Compatibility across funds: as with the Innovation Fund, it is important to allow for the possibility to combine the Modernisation Fund with other relevant EU and national funds. Clarity will also be needed to align support of Member States with state aid rules.

### Next steps

T&D Europe would appreciate the opportunity to discuss these ideas with the European Commission, the European Parliament, Member States and other stakeholders as the legislative process on the ETS reform moves on.