# Observations on reductions from a capacity mechanism levy for energy intensive users in Poland

SA.51502





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# 1 Introduction

- ClientEarth<sup>1</sup> hereby wishes to submit to the Commission its response to the invitation to submit comments in respect of the decision of 15 April 2019 on SA.51502 to initiate a formal investigation on the reductions from a capacity mechanism levy for energy intensive users ("EIUs") in Poland (hereafter the "Reductions" or the "scheme"), (hereafter the "Opening Decision").<sup>2</sup>
- 2. We have been analysing the Polish Capacity Market very closely since it was first designed by the Polish authorities and provided comments on the design and amendments to the scheme on several occasions.<sup>3</sup> More generally, we are familiar with the energy market in Poland thanks to our long-term presence there and regularly contribute to shaping the regulatory framework for the energy transition in Poland.<sup>4</sup>
- 3. We welcome the opening of a formal investigation into the scheme and are hereby alerting the Commission of several critical concerns that the proposed Reductions raise in relation to the State aid framework, the electricity market and the consistency with the underlying capacity mechanism. We conclude that the Commission should not authorise the scheme.

# 2 Contextual information

4. On 7 February 2018, the Commission decided not to raise objections to the Polish capacity mechanism (SA.46100).<sup>5</sup> The capacity mechanism aims at addressing resource adequacy problems in Poland. It consists in procuring the level of capacity required to ensure resource adequacy through centrally managed auctions. Successful bidders receive a steady payment during the duration of their capacity agreements. The measure is financed through a levy on electricity supplies that is ultimately charged on final consumers. In this respect, households are charged a monthly rate on the basis of their annual electricity consumption whereas all other electricity end consumers are charged with a rate applied to the volume of electricity consumed from the network, during expected high demand

<sup>3</sup> ClientEarth, "Assessment of the Polish Act on the Capacity Market", February 2018: <u>https://www.documents.clientearth.org/library/download-info/assessment-of-the-polish-act-on-the-capacity-market/;</u> "The Polish Draft Act on the Capacity Market in light of EU law": <u>https://www.documents.clientearth.org/library/download-info/the-polish-draft-act-on-the-capacity-market-in-light-of-eu-law/;</u> "The Polish capacity market

under EU State aid law - ClientEarth Winter Package presentation": <u>https://www.documents.clientearth.org/wp-content/uploads/library/201703-01-case-</u> study-the-polish-capacity-market-under-eu-state-aid-law-ce-en.pdf"

<sup>4</sup> See for a recent report: ClientEarth, "Law and Ambition in Poland's Energy Transition" report, December 2018:

https://www.documents.clientearth.org/library/download-info/law-and-ambition-in-polands-energy-transition/

<sup>5</sup> Commission decision in case SA.46100 (2017/N) – Poland – Planned Polish capacity mechanism, OJ C/462/2018, 21.12.2018

<sup>&</sup>lt;sup>1</sup> ClientEarth is a leading non-governmental public interest environmental law organisation based in London, with offices in a number of global cities including Brussels, Warsaw and Berlin. Our work notably focuses on shaping energy market rules and a State aid legal framework that supports a flexible, efficient, competitive and sustainable energy market.

<sup>&</sup>lt;sup>2</sup> OJ C 200 of 14.6.2019, p. 9



hours (expressed in zloty per kWh). Those peak hours are to be defined each year, for each quarter, by the Polish Regulator.<sup>6</sup>

- 5. We highlight that the information provided by the Polish authorities that the capacity charge for all customers other than households is to be dependent on their actual electricity consumption during peak demand hours is not fully accurate, since the government published in 2018 a draft legislative proposal for amending the Capacity Market Act in this regard.<sup>7</sup> The proposal provides for making the capacity charge a fixed monthly levy also for other customers with the contracted capacity (at the customer's power connection point) of up to 16 kW. We are of the opinion that such a change in the capacity mechanism, if adopted, would dis-incentivise the smallest business customers from shifting their electricity consumption to off-peak hours and, consequently, would weaken the original concept of Poland's capacity market.
- 6. The Polish Capacity Market Act of 8 December 2017 already provided for reductions in capacity charges for a certain category of energy end consumers. Poland committed to notify these reductions, "*which would constitute State aid*", separately to the Commission.<sup>8</sup> On 26 June 2018, the Polish authorities notified their project to reduce the level of the capacity levy charged on certain EIUs by:
  - 20% for beneficiaries with an electro-intensity between 3% and 20%,
  - 40% for beneficiaries with an electro-intensity between 20% and 40%, and
  - 85% for beneficiaries with an electro-intensity above 40%

of the amount of electricity taken from the grid and consumed by a given beneficiary during the selected peak hours.<sup>9</sup> It was originally contemplated that 52 EIUs would benefit from those Reductions. As per the Opening Decision, on 5 March 2019 Poland communicated its intention to abolish the threshold of 100 GWh/year energy consumption, so that 300 to 350 EIUs would benefit from the Reductions.<sup>10</sup> It is estimated that those consumers cover more than 43% of peak demand.<sup>11</sup>

<sup>&</sup>lt;sup>6</sup> Opening Decision, rec. (13)

<sup>&</sup>lt;sup>7</sup> This draft act is publicly available on the government's website: <u>https://legislacja.rcl.gov.pl/projekt/12317354</u>

<sup>&</sup>lt;sup>8</sup> Commission's decision of 7 February 2018, rec. (108)

<sup>&</sup>lt;sup>9</sup> Opening Decision, rec. (25)

<sup>&</sup>lt;sup>10</sup> Poland proposes that the EIUs eligible to the scheme be those belonging to the sector listed in Annex 3 to the EEAG.

<sup>&</sup>lt;sup>11</sup> Our understanding of recital (18) of the Opening Decision is that 43% of peak demand is covered by "the majority" of the potential beneficiaries of the aid. We thus assume that all the potential beneficiaries cover more than 43% of peak demand. For the sake of transparency and monitoring of the scheme, we recommend that the level of peak demand that is estimated to be covered by all the beneficiaries of the scheme be indicated in the final decision.



# 3 State aid assessment and relevant legal framework

- 7. We support the Commission's assessment and preliminary conclusion that the measure constitutes State aid as there is no doubt that:
- The scheme is financed through State resources and is imputable to Poland (section 3.1.2 of the Opening Decision);
- The eligible EIUs receive an advantage in the form of a reduction from a capacity levy that they should normally have paid, for being final energy consumers (recital 38 of the Opening Decision);
- The said advantage is selective since "*it applies only to EIUs active in sectors included in Annex 3 of the EEAG*" (recital 39 of the Opening Decision) or to any other category of EIUs that would be applicable should Annex 3 EEAG not be relevant (see below); and
- The eligible EIUs being active in sectors with high international trade exposure, the scheme is likely to affect trade and distort competition (recital 45 of the Opening Decision).
- 8. The scheme was notified, the capacity charge will be levied only from 1 October 2020 and Poland has committed not to implement the Reductions before authorisation from the Commission; Poland has thus complied with its standstill obligation (recital 47 of the Opening Decision).
- 9. We agree with the Commission's preliminary conclusions that the capacity charge does not qualify as an environmental tax as defined in the EEAG. We also agree that the **Reductions fall outside the scope of the EEAG**, which do not set a framework for exempting EIUs from capacity charges (Opening Decision, rec. (50)-(51)). Therefore, the compatibility assessment of the scheme shall be conducted under Article 107(3)(c) TFEU.
- 10. In this respect, the Commission has a wider margin of appreciation of the conditions under which the Reductions could be authorised than if the EEAG were applying. Conversely, it reinforces Poland's duty to demonstrate in detail how the scheme meets each one of the compatibility criteria, with an emphasis (as will be detailed hereafter) on (i) the objective of common interest pursued, (ii) appropriateness and (iii) proportionality of the scheme. The Commission should be even more careful in assessing this matter that it is "novel in both its subject matter and its implications for the future", as per the Commission's own assessment (Opening Decision, rec. (78)).
- 11. Some features of the scheme proposed by Poland are undoubtedly inspired by the EEAG and the conditions of compatibility of exemptions or reductions from environmental taxes and funding of support to energy from renewable sources ("RES"). This is particularly the case of:

- the EIUs that would be eligible to the Reductions, i.e. those industries that are electrointensive and deemed particularly exposed to international trade listed in Annex 3 of the EEAG (para. 185 EEAG); and



- the level of reduction from the capacity charge, i.e. a maximum reduction of 85% in order to ensure that "*the aid beneficiary pay at least 15% of the [cost] without reduction*" and that the aid is proportionate (para. 188 EEAG).

- 12. We stress that even if the Commission may reason by analogy with the conditions set in section 3.7 of the EEAG and its decisional practice in these matters, it is not under any obligation to do so. In the absence of specific rules in the EEAG or in any other set of guidelines for assessing the compatibility of the Reductions, the scheme shall be assessed in its individuality. In other words, the Commission should verify whether the list of EIUs set in Annex 3 to the EEAG is the appropriate category of beneficiaries for the scheme<sup>12</sup> and whether the levels of reductions do not undermine the objective of security of supply pursued by the capacity mechanism and are proportionate in this particular case.
- 13. We agree with the Commission's doubts as to the compatibility of the aid scheme with the internal market, for the reasons exposed below.

# 4 The Reductions should not undermine or contradict the objective of common interest pursued by the capacity mechanism

- 14. At recital (15) of the Opening Decision, Poland argues that the Reductions would "*indirectly contribute to ensuring security of supply*" by holding EIUs on the Polish territory whereas the increase of electricity-related costs imposed by the capacity charge could make them file for bankruptcy or relocate. By analogy with the logic of the reductions in funding for support to energy from renewable sources<sup>13</sup>, we assume that Poland worries about relocation of these industries, exposed to international trade, **outside the EU**.
- 15. We share the Commission's doubts as expressed under recitals (57) to (60) of the Opening Decision.
- 16. The proposed Reductions in capacity charges are fundamentally different from reductions in funding of support to energy from renewable sources. The proposed Reductions would not only affect the financing of the capacity mechanism. They would dis-incentivise the beneficiaries from fully contributing to the capacity mechanism (by reducing or shifting their consumption outside of peak hours) and thus directly affect the underlying scheme that is the capacity mechanism. The logic in the EEAG relating to reductions in funding support to RES which we do not necessarily fully support either is thus not replicable to the proposed Reductions.

<sup>&</sup>lt;sup>12</sup> According to para. (185) EEAG, the list on Annex 3 is intended to be used **only** for eligibility for aid in the form of reductions in the funding of support for energy from renewable sources.

<sup>&</sup>lt;sup>13</sup> See para. (185) and Annex 3 EEAG)

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- 17. Regarding recitals (20)-(21) and (61)-(63) of the Opening Decision, Poland fails to explain why anyone would want to reduce consumption during peak hours (where the capacity charge is levied) given that the EIUs' VoLL is assumed to be higher than avoidable energy costs at peak. While VoLL is relevant for assessing the impact of forced demand reductions, it is not the correct basis for assessing the cost-effectiveness of voluntary demand reductions. We therefore encourage the Commission to investigate and question Poland's reasoning further.
- 18. Regarding recital (21) of the Opening Decision: The Polish authorities have provided the Commission with data estimating how much more Poland's EIUs would have to pay for a MWh of electricity consumed from the grid, but are **silent regarding concrete practical implications of such rises**. The cost of electricity supply is rising in all EU Member States and it will be extremely hard to decarbonise the economy if power prices stay at relatively low levels (due to insufficient incentives for adopting less emissive technology alternatives). Without modelling actual (i.e. non-monetary) consequences for customers that are to be covered by the reductions scheme, it is difficult to fully assess the proposed mechanism. Such an analysis should in particular **include a comparison with power supply costs borne by direct competitors in other Member States**, because the sole numbers presenting how much more industry customers in one country may pay for one MWh of electricity does not tell much.

# 5 Eligibility criteria of EIUs

- 19. Poland proposes to grant the Reductions to all EIUs that belong to the sectors listed in Annex 3 to the EEAG. Consequently, Poland anticipates the number of beneficiaries to be *circa* 300-350 EIUs. We recall that this list can only be used by analogy and does not apply, in principle, to a scheme consisting in a reduction in funding of a capacity mechanism.
- 20. The eligibility criteria of the scheme call for the following comments.
- 21. *Firstly*, Poland originally notified its intention to grant the Reductions to only the most electro-intensive industries in the countries, consuming more than 100 GWh/year. Only 52 EIUs were falling under this category. However, neither the justification, nor the regulatory impact assessment attached to the draft of the Capacity Market Act explain why the Polish authorities had originally adopted that threshold of 100 GWh/year and considered why reducing unit capacity charge rates to only 52 Poland's largest consumers was deemed to be an adequate solution.
- 22. Furthermore, the Opening Decision does not explain why Poland decided to remove that threshold and to enlarge the scheme to all sectors listed in Annex 3 to the EEAG and to 300-350 EIUs in the end. There is no sufficient publicly available data on this enlargement either. The whole consultation process of the reductions scheme has been completely non-



transparent and in such cases, there is always a risk that the proposed solution does not correspond with neither actual business needs nor technology possibilities. One cannot exclude that changing the original concept may result from advocacy activities of directly concerned companies wanting to preserve their present market position, even if they may be able, at least to some extent, to change their production profile. It is worth noting that the Polish leading energy think tank, Forum Energii, has estimated that the potential for demand side response among Poland's largest industry customers amounts to up to 2 GW<sup>14</sup>, which is the capacity volume corresponding to at least a number of peaking generation units that otherwise would need to be contracted under the capacity market scheme.

- 23. It is essential that the Commission question both the reasons for and the proportionality of this enlargement. There must be reasons why Poland had originally limited the Reductions to the most electro-intensive industries and set the threshold at 100GWh/year. Presumably, Poland originally considered that (i) only those 52 industries would be at a severe risk of bankruptcy or relocation outside the EU as a result of the capacity charge; (ii) only those industries could not practically shift their production activity outside of peak hours; and/or (iii) that setting up this threshold would limit the number of beneficiaries of the scheme, be less distortive of competition and not substantially impact the size of the capacity mechanism.
- 24. Those are only presumptions and, in the absence of detail on the Opening Decision or of data available to the public on the reasons for this extension, we strongly encourage the Commission to request Poland to state adequate and solid reasons for this extension. Should the Commission consider the scope of the beneficiaries to be disproportionately too large, or ill-defined, it is always vested with the power to issue a negative decision or subject a positive decision to Poland's commitment to amend the proposed scheme.
- 25. Secondly, regarding recital (19) of the Opening Decision: the Polish authorities have explained that shifting electricity consumption to off-peak hours in case of up to 350 largest customers is "*unlikely*" and that such customers "*often operate at full or close to full capacity*". This does not mean that such shifting is impossible for all of the customers that are to be covered by the reductions scheme, both technology- and economic-wise. This also means that at least some of these customers do not have to operate at high capacity all the time. Therefore, the eligible sectors should be further scrutinised. Moreover, the Polish authorities refer only to technology problems to be faced by some industries (providing as an example steel production, i.e. an extreme example of continuous production process) and, on top of that, they seem to take a position of the potential beneficiaries of the scheme and not of the economy as a whole. In order to be able to fully access the planned Reductions scheme, the Polish authorities should complement the data presenting potential costs and problems on the EIUs' side with data estimating monetary benefits resulting from improved power system flexibility as

<sup>&</sup>lt;sup>14</sup> See: <u>https://forum-energii.eu/pl/analizy/przemysl-poprawi-bezpieczenstwo-systemu-energetycznego</u>



well as environmental impact assessment covering at least two of the possible scenarios (i.e. narrow and broader exemptions). Without such a wider cost-benefit analysis, one cannot have a full picture of the actual situation.

# 6 Increase of the burden of the capacity charge for other consumers (non-EIUs and households)

- 26. Paragraph 29 of the Opening Decision states that " As regards the financing of the scheme, the Polish authorities explained that part of the costs will be ultimately borne by households, by increasing their amount of capacity charge, and the remaining part will be evenly distributed among other electricity consumers, to avoid financing gaps." At para. 69, the Commission adds that "The latter [distribution of costs to other industrial consumers] is designed to minimise the size of the capacity mechanism by incentivising those industrial consumers to shift their consumption away from high demand hours and thus reduce the risk of system stress."<sup>15</sup> This is the original objective of the capacity charge for all consumers (including the EIUs, if they are not exempted), as recalled by the Commission.
- 27. It is not indicated in the Opening Decision what percentage of the costs will be shifted to households and which percentage to other consumers, nor whether the burden will be shared "evenly" between households. We are not able to comment on this more precisely without knowing Poland's proposed methodology to allocate the capacity charge to those other consumers.
- 28. The consequence of the Reductions if they were to be authorised by the Commission would undoubtedly be that the remainder of the capacity charge that would not be paid by the beneficiaries would be levied on other consumers, increasing the latter's own bills. We would like to make three remarks in this respect:
- 29. Firstly, Poland argues that the Reductions are necessary for maintaining public acceptance of the capacity market.<sup>16</sup> The re-allocation of the capacity charge to households and non-energy intensive consumers, which are also particularly sensitive to rises of their energy bills, **might also negatively impact public acceptance** of the capacity market and of the Reductions together. This could potentially concern *circa* 14.5 million consumers. In fact, in Poland the public debate around the capacity market proposal, before the scheme was adopted (including the debates in the Parliament), was focused mostly on this aspect: how much more households would have to pay for

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This proposal was published back in 2018 and nothing has happened to it so far, top the best of our knowledge.
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<sup>&</sup>lt;sup>15</sup> Currently, the capacity mechanism surcharge is supposed to be charged on non-household consumers depending on their electricity consumption at peak hour. However, there is a draft proposal aimed at making the capacity levy fixed also for the smallest business customers: Polish authorities have justified it by the data arguing that variable rates for everyone will not be technically manageable by 2021, due to metering and administrative issues, as well as much higher costs of the levy collection mechanism.

<sup>&</sup>lt;sup>16</sup> Opening Decision, rec. (15)



electricity delivery once the scheme is introduced and whether they would be able to bear these additional costs. In practice, the broader exemptions that are now considered<sup>17</sup> means that households will have to pay even higher capacity charge rates as compared to rates that would have to be paid under the original (and still unchanged) provisions of the Capacity Market Act (see point 29 of the Opening Decision). Moreover, the Polish authorities do not provide any concrete data regarding how much households' electricity bills may rise (for instance per month) because of such a broader reductions scheme.<sup>18</sup> We hereby encourage the Commission to question the consistency of Poland's alleged reasons for introducing the scheme.

- **30.** Secondly, higher capacity charges levied on non-energy intensive business consumers would presumably incentivise them to shift their electricity consumption outside of peak hours (or reduce their consumption during those peak hours) and thus, reduce the size of the capacity mechanism. Although this seems to be a positive effect of the present scheme on the level of resource adequacy in Poland, the Commission should carefully consider whether the volume of consumption that would be shifted (or not consumed) by smaller business consumers **is higher than** the volume of consumption that the EIUs would shift outside of peak hours absent the Reductions (*counterfactual test*). Our analysis is that an equivalence between those volumes or worse, a lower level of reduction of electricity consumption during peak hours by smaller energy consumers, would not contribute to reducing the size of the capacity market, while increasing its cost for non-exempted consumers.
- **31.** Thirdly, as the capacity charge is levied on households at a monthly rate of their annual electricity consumption, the hours of the day they consume electricity is not directly relevant for this assessment. Nevertheless, a cost recovery methodology that incentivises households to reduce their annual electricity consumption (i.e. if the capacity charge is applied on the volume of electricity consumed rather than a fixed charge) could contribute to decreasing demand for energy and thus, would contribute to security of supply. However, the volume of energy that is saved by households in this manner would be of little significance compared to the volumes that EIUs could save, should they be sufficiently incentivised to do so.

# 7 A fixed annual compensation amount could be a more adequate form of aid

32. The scheme proposed by Poland consists in reductions from the capacity charge that would be levied on the beneficiaries' electricity bills. We share the Commission's concerns that the proposed Reductions dis-incentivise the beneficiaries from reducing their electricity costs by shifting their production activity outside of peak hours. This severely risks undermining the cost recovery methodology of the capacity charge and

<sup>&</sup>lt;sup>17</sup> With the extension of the scope of beneficiaries form 52 to potentially 300-350 EIU

<sup>&</sup>lt;sup>18</sup> At the same time, electricity tariffs for households are frozen for 2019 at the regulated tariff applicable in June 2018. It is not clear yet what measures would be taken for 2020.



risks opposing the objective of addressing resource adequacy problems identified in Poland at least cost and in the most efficient manner - that is reducing consumption, rather than increasing generation (to an equivalent level).

- 33. Therefore, we encourage the Commission and Poland to contemplate an alternative form of aid, i.e. a fixed annual compensation amount, by analogy with paragraph (192) EEAG. Footnote (88) EEAG states that "the use of fixed annual compensations (tax refunds) has the advantage that exempted firms face the same increase in the marginal cost of electricity (i.e. the same increase in the cost of electricity for every extra MWh consumed), thereby limiting potential distortions of competition within the sector." This could be adequate in the present case. One the one hand, making the EIUs bear an increase in the cost of their electricity consumption during peak hours would incentivise them to shift their production activity - and electricity consumption - outside of peak hours, where they would not be subject to the capacity charge. This would help achieve, or at least not undermine to an undue extent, the objective of the capacity mechanism and limit the risk of enhancing the resource adequacy issues faced by Poland that have justified the capacity mechanism in the first place.<sup>19</sup> On the other hand, a fixed annual compensation would address Poland's concerns - only if they are deemed justified by the Commission as part of its assessment of the objective of common interest and incentive effect of the scheme - of not increasing the burden of electricity costs for the beneficiaries.
- 34. In paragraph (192) EEAG, the Commission suggests that the fixed annual compensation that could be granted to EIUs should take the form of a tax refund. As mentioned above, the EEAG can only be used by analogy in the present case and the Commission (and Poland) may depart from the forms of aid recommended in the EEAG. We thus suggest that the Commission analyses whether other forms of annual compensation, or any other form of aid that would both help achieve the objective of security of supply and limit distortions of competition created by the proposed scheme, are more adequate than the proposed Reductions.

# 8 Transparency and monitoring

- 35. We welcome that Poland commits to apply<sup>20</sup> the transparency requirements set out in paragraphs (104) to (106) of the EEAG and with the reporting and monitoring requirements referred to in part 6 of the EEAG.
- 36. In addition, we recommend that Poland also commits to apply paragraph (192) EEAG and puts in place an *ex post* monitoring mechanism to ensure that any over-payment of aid,

<sup>&</sup>lt;sup>19</sup> *Caveat*: ClientEarth does not take a stance in the present letter as to the actual need for a capacity market in Poland and whether the one that has been authorised by the Commission on 7 February 2018 is designed properly. For the sake of this letter, we take the Polish capacity market as a fact and disregard the action for annulment against the Commission's decision of 7 February 2018 that is ongoing before the General Court (T-167/19). <sup>20</sup> Even though recital (32) of the Opening Decision notes that these requirements will be "complied with", we recall that the EEAG do not formally apply to the present matter.



i.e. any excessive reduction from the capacity charge, be repaid before 1 July of the following year.

## 9 Cumulation of aid

37. Regarding recital (33) of the Opening Decision: EIUs in Poland already pay reduced unit rates in case of most power-related charges or levies (such as the renewable energy charge and the cogeneration charge<sup>21</sup>). Therefore, the assessment of cumulation of aid granted for Poland's EIUs should take into account all power-related exemptions and not only the reductions from the capacity charge.

## 10 Duration of the scheme

**38.** Poland proposes that the exemption should apply for 10 years as from the date the first capacity charges are collected, i.e. from 1 October 2020 to 31 September 2030. For the sake of consistency, we recommend that the duration of the exemption be aligned on the duration of the capacity mechanism (in case the capacity mechanism terminates before 10 years), with a maximum of 10 years.

### 11 Conclusion

- 39. Reducing unit capacity charge rates for industrial customers that are responsible for roughly half of Poland's peak power demand (over 43%) and not connecting the capacity charge with actual electricity consumption not only for households, but also for smallest business customers (as proposed by the government see above) seems to be highly distorting the original concept of Poland's capacity market. Indeed, the capacity mechanism scheme aimed also at incentivising broader demand side management among all Polish non-household customers, i.e. not only via direct participation of DSR units in capacity auctions, but also through adopting a very progressive and variable method of charging companies with the new fee. In practice, the proposed changes in the capacity charge collection mechanism (not yet adopted by the Polish Parliament) would mean that ensuring the necessary flexibility in the Polish Power System would be exclusively dependent on small and medium-sized undertakings and public entities (offices, schools, hospitals etc.), which already pay the highest unit rates in case of all components of electricity bill and are responsible for the minority of electricity consumed in Poland. This questions the efficiency of the scheme as a whole.
- 40. We therefore encourage the Commission **not to authorise the scheme**.

<sup>&</sup>lt;sup>21</sup> See in this respect Commission's decision of 15 April 2019 on SA.52530 Reductions for EIUs from CHP charge (not publicly available yet) and Commission's decision of 13 December 2017 on <u>SA.43697</u> Polish support scheme for RES and relief for energy-intensive users.

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- 41. In any case, the Commission should be particularly vigilant as to the compatibility of the scheme with the internal market and ensure that all safeguards are taken to (i) not undermine the purpose and efficiency of the financing mechanism of the capacity market and (ii) limit distortions of competition as much as possible.
- 42. Regardless of the Commission's final conclusions on the proposed scheme, we recommend that the **reasoning and justification of the final decision be very clearly detailed**. Indeed, this case is "*novel in both its subject matter and its implications for the future*"<sup>22</sup>; capacity mechanisms are under a close public scrutiny due to both legal challenges against some of them and the adoption of new rules under the recast Energy Market Regulation; and exemptions for EIUs (from environmental taxes and funding of support to RES) multiply in the Member States. There is thus no doubt that the present case will be a model for future schemes and the Commission's final decision must thus be **exemplary**.

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<sup>&</sup>lt;sup>22</sup> Opening Decision, rec. (78)

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ClientEarth is a non-profit environmental law organisation based in London, Brussels and Warsaw. We are activist lawyers working at the interface of law, science and policy. Using the power of the law, we develop legal strategies and tools to address major environmental issues.

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