ELECTRIFICATION ALLIANCE

Electrification Alliance reaction paper on the Affordable Energy Action Plan and Clean Industrial Deal

The Electrification Alliance welcomes the publication of the Affordable Energy Action Plan and the Clean Industrial Deal (CID) as timely and strategic steps toward making energy more affordable for European consumers. High energy costs threaten both EU industry and households, jeopardising competitiveness. The Commission warns that inaction could lead to deindustrialisation.

Overall, the strategic approach outlined by the Commission includes a number of crucial measures to bring down energy prices in Europe. We welcome the announced measures supporting clean and renewables-based direct electrification, electricity grids, and flexibility. The focus on integrated system planning and full implementation of the recent Electricity Market Design (EMD) reform are equally crucial, prioritising lower system costs over abrupt price interventions.

However, targeted improvements are needed to fully unlock the potential for direct electrification and avoid market distortions that could hinder industrial decarbonisation and competitiveness, which would ultimately impact consumers through higher prices.

This paper outlines our key recommendations on the Affordable Energy Action Plan and the Clean Industrial Deal. We look forward to engaging with policymakers on how to enable a cost-effective transition to a decarbonised, consumer-friendly, and affordable energy system.

Maintain focus on direct electrification as the most important lever to provide affordable energy to consumers

Higher levels of clean direct electrification will bolster Europe's energy security, reduce reliance on fossil fuels, and substantially cut long-term energy costs. According to ACER (2024), the levelised cost of electricity (LCOE) for renewables, particularly wind (€33-77/MWh) and solar (€24-62/MWh), is now significantly lower than fossil-based

alternatives such as gas (€80-120/MWh) when factoring in carbon pricing. Furthermore, the International Energy Agency states that flexibility solutions can mitigate potential cost increases related to variability, ensuring cost-effectiveness across all sectors[1]. According to SolarPower Europe, unlocking flexibility could cut total energy system costs up to €32 billion in 2030 and €160 billion in 2040, thanks to massive cost savings from electrification[2].

The introduction of a 32% electrification KPI by 2030 in the CID is a key signal for increasing electricity's share of final EU energy demand – stagnant at 23% for over a decade. Equally, the upcoming Electrification Action Plan and Heating and Cooling Strategy announced for 2026 are highly welcome, and must translate this ambition into actionable legislative measures to boost direct electrification throughout the continent and across all sectors.

Importantly, the €100 billion earmarked under the Industrial Decarbonisation Bank must support the 32% KPI by prioritising proven and mature direct electrification technologies, such as the direct electrification of low- and medium-temperature heat.

Fully implement the electricity market reform

The Electrification Alliance welcomes the Commission's focus on implementing the 2024 Electricity Market Design reform, including its emphasis on facilitating long-term contracts through PPAs and, where appropriate, voluntary two-way Contracts for Difference (CfDs) or equivalent schemes with the same market-consistent effects. These instruments can significantly enhance price predictability, support the deployment of renewable electricity, and boost industrial electrification while minimising distortions in the wholesale and retail markets in line with the Electricity Directive.

We also welcome the strengthened role for the EIB in de-risking PPAs, and the upcoming Commission guidance for Member States on CfD design, including on how

[1]IEA: World Energy Outlook 2024. Available at: https://www.iea.org/reports/world-energy-outlook-2024
[2] Solar Power Europe: Mission Solar 2040. Available at: https://www.solarpowereurope.org/insights/thematic-reports/mission-solar-2040-1

PPAs and CfDs can coexist. In drafting the latter, it is important to clearly distinguish between capacity allocated to PPAs and that covered by two-way Contracts for Difference (CfDs), in accordance with the provisions of the 2024 Electricity Market Design reform. This distinction is essential to preserve market integrity, avoid overlaps in support schemes, and ensure that each instrument delivers its intended role without distorting competition.

However, in the light of the reference to the Iberian mechanism in the CID and Action Plan[3], we reiterate our opposition to subsidies to thermal plants as a default option to lower electricity prices during a crisis – costs that are ultimately borne by consumers and have been proven to be an ineffective way to manage extreme price volatility.

In the short-term, direct support to customers and energy-saving measures are the most effective means to ease the pressure. However, such support should not perpetuate fossil fuel use, create lock-ins and distortions. The only truly sustainable solution to reduce energy costs is to shift away from fossil fuels, invest massively into clean electricity alternatives, accelerated energy efficiency and savings, electricity grids, and the deployment of flexibility, notably demand response and storage. Preserving market signals and ensuring investor certainty is critical to channel the required volumes of private investments into renewable energy, carbon-neutral energy supply and enabling infrastructure.

Provide targeted support to consumers

Beyond horizontal measures to lower energy prices, additional efforts are needed to protect the most vulnerable consumers – both industrial and private.

The EU should support industries in their efforts to decarbonise operations through clean, flexible electrification, including EU energy-intensive industries (EIIs) that compete globally and are under competitive pressure from, among other factors, high energy costs. Specific measures are needed to support the electrification of industry, including

---

3 https://commission.europa.eu/document/download/9db1c5c8-9e82-467b-ab6a-905feeb4b6b0_en?filename=Communication%20-%20Clean%20Industrial%20Deal_en.pdf, p.4

targeted financial support to advance industrial electrification and measures to increase the uptake of PPAs and other long-term contracts.

The Commission'sGuidance to Member States on social leasing for clean products can help ensure that the most vulnerable groups fully exploit the potential of direct electrification. We support this initiative to stimulate demand for clean, electric products. Beyond developing guidance, the Commission should also support the setup of national schemes for social leasing for electric cars and heat pumps.

Accelerate the rollout of clean generation and electricity grid capacity

To meet rising electricity demand over the coming years, the EU must both support clean electricity generation, and ensure a smooth and timely rollout of electricity grids to enable efficient transmission to end users within and across Member States, which will require dedicated regulatory and political support. Approximately €584 billion in grid investment is needed by 2030[4] to stay on track for the energy transition. Indeed, IEA states that '*lack of grid development, including expansion, presents risks to electricity security while both limiting the pace and increasing the cost of clean transition*'[5]. At the same time, TYNDP 2024 indicates that in 2040, €6 billion investment in electricity grids would provide €13b/year in system cost reduction[6].

We welcome the focus on rapidly expanding grid capacity, fostering investments through increased funding and financing, de-risking and ensuring competitive rates of return, and on optimising permitting times, which are currently the main bottleneck for clean electricity and electricity grid infrastructure projects. Increased and simplified access to EU funding for electricity grid operators, e.g. by access to the Innovation Fund and through an increased budget for and an eased access to the Connecting Europe Facility (CEF), will be crucial to meeting investment needs, while grid planning and

[4] https://ec.europa.eu/commission/presscorner/detail/en/ip_23_6044

[5] https://iea.blob.core.windows.net/assets/ea2ff609-8180-4312-8de9-494bcf21696d/ElectricityGridsandSecureEnergyTransitions.pdf

[6] https://eepublicdownloads.blob.core.windows.net/public-cdn-container/tyndp-documents/TYNDP2024/forconsultation/Infrastructure_Gaps_Report.pdf

financing should be considered jointly. At the same time, barriers to the absorption of funds at national levels should be identified and removed, and the creation of a dedicated fund for grid expansion, renewal, modernisation and resilience should be explored. Moreover, the EU should fully utilise the EIB to provide de-risking tools and mechanisms, such as counter-guarantees for electricity grid operators, for supply chains and beyond.

We equally welcome the Commission's intention to strengthen the capacities of national authorities as regards permitting - both in terms of adequate resourcing and in the reinforcement of relevant competences. To build on this, the Member States must speed up permitting for RES assets and electricity grid infrastructure. The revised Renewable Energy Directive (RED) should be swiftly enforced, while balancing environmental and social safeguards. Faster permitting should focus on simplifying procedures rather than deregulation. Environmental impacts should be properly considered to avoid public opposition, delays and higher costs.

Notably, the European Grids Package can be a key opportunity in accelerating electricity grid development and modernisation across voltage levels. Alongside electricity grid buildout, it should appropriately take into account the potential of flexibility, such as demand response and procurement of storage services, which can help optimize the energy system, support RES integration and reduce overall costs.

Appropriately incentivise and reward flexibility and energy efficiency

Due to the rising variability induced by the uptake of renewable energy sources, the focus on generation and electricity grid reinforcement alone is not enough: demand-side flexibility and energy efficiency must be fully embedded into system planning, together with other clean flexibility sources such as energy storage. Energy efficiency and flexibility, notably demand response, will rise in importance drastically over the coming years. ACER and the European Environmental Agency (EEA) underlined in a 2024 report that flexibility needs will double by 2030 to keep pace with the growth in renewables[7]. System-level efficiency should be duly considered and

[7] https://www.entsoe.eu/system-flexibility/#:~:text=The%20need%20for%20short%2Dduration,country%20size%20and%20generation%20mix.

embedded in upcoming policies through forward-looking energy system planning, allocating funds where they are most impactful.

We welcome the announced guidance for Member States and retailers on promoting remuneration of flexibility in retail contracts, which should however avoid strict requirements on suppliers that could hinder innovation. We also support the speedy adoption of the Network Code on Demand Response, and full implementation of the measures already set out in the 2019 Clean Energy Package, to make sure consumers can take full financial advantage of flexibility. At the same time, measures to promote flexibility and demand response must ensure that consumers unable to offer flexibility are not penalised.

The proposed guarantee scheme for energy efficiency services is equally promising and could help reduce the EU's overall electricity consumption and prices for all consumers.

Put in place fair taxes and levies

Taxes and levies make up a significant portion of the consumer prices in many EU countries, often far exceeding rates charged by international competitors such as China or the US, hampering the competitiveness of EU companies and affordability for citizens. Regulated electricity charges in Europe (the average of France, Germany, Spain, Poland) are nearly fifteen times higher for households and four times higher for industries than in China[8]. Hidden charges further distort prices, and exemptions for energy-intensive industries are often complex and inaccessible for smaller businesses ready to transition. The EU must align energy taxation with its competitiveness and climate goals by removing non-electricity-related charges from electricity bills and lowering tax rates to the legal minimum or zero, and ensure decarbonisation and energy security costs are funded through general taxation.

While we welcome the recommendations to reduce taxes and levies, more structural reforms on taxation are needed. Member states should ensure a level playing field across the Union, while setting clear deadlines for the phasing out of fossil fuels and related subsidies. This includes cutting non-electricity costs, keeping grid-related costs in

[8] WindEurope, Vaasa ETT, 2025, Making electricity bills work for European competitiveness and energy resilience

electricity pricing, and incentivising clean electricity deployment. Reforming the Energy Taxation Directive is key to lowering electricity taxes and ensuring a fair, harmonised framework that unlocks direct electrification, reduces costs, and accelerates decarbonisation.

Ensure cost-reflective network charges

Despite being enshrined in EU law since 2019, and offering major opportunities to operate EU power grids more efficiently, the principle of cost-reflective network charges has been largely overlooked. We support the Commission's plan to more strongly harmonise the design of tariff methodologies to incentivise flexibility and electrification investments - without, however introducing a single binding EU methodology for network tariffs design, which could not account for local specificities. At the same time, certainty for system operators should be ensured to enable the needed investments in electricity grids and long-term planning. The upcoming guidance to Member States on use of public budget to lower network charges is welcome as well.

The inclusion of a time component in network tariffs is crucial to better integrate consumers' flexibility from consumers, while taking into account the differing flexibility capability of different generators and consumers.

ELECTRIFICATION ALLIANCE

The Electrification Alliance, a coalition of leading associations believes that electricity is the key energy carrier for an efficient, decarbonised, and cost-effective European future. Our alliance brings together experts from renewable energy, transport, heating, grid infrastructure, and electrification technologies, united by a shared vision: a future where electricity drives Europe's energy system, reducing emissions, enhancing energy efficiency, and ensuring affordable power for all.

For more information about the Electrification Alliance: http://electrificationalliance.eu/

Alliance members