Securing competitive energy for industry

IFIEC Europe Position Paper on the European Grids Package

European Commission
1049 Bruxelles/Brussel
Belgium
07/07/2025

Dear Mr. Koliński,

On behalf of IFIEC Europe, the International Federation of Industrial Energy Consumers, we welcome the opportunity to provide input to the European Commission's consultation on the forthcoming Grids Package.

IFIEC Europe represents energy-intensive industries (EII) across sectors such as chemicals, refining, food and nutrition, paper, glass, ceramics, steel and metals and fertilizers. Efficient, reliable and well-integrated energy infrastructures are essential for a competitive industry in Europe and a successful European energy- and industry transition.

As Europe transitions to sustainable energy sources, the future energy system must be capable of accommodating a wide array of modalities, including electricity, natural gas, biogas and hydrogen. Also, the availability of competitive CO_2-storage projects is a crucial enabler for this energy system. The success of this transformation depends heavily on an interconnected and future-proof European grids that are planned, built, and operated to reflect the needs and capabilities of all key actors – including industrial consumers. EII rely on accessible infrastructures, built and maintained by Transmission and Distribution System Operators (TSOs and DSOs), and regulated by NRAs. The rapid growing capacity needs, with considerable associated costs for grid users, as well as the changes in the nature of the energy value chain require a reorientation of how we plan, operate and govern our energy infrastructures.

EII as key stakeholders

Reliable and affordable infrastructures are crucial for the industry and its transition to carbon neutrality. At the same time, EII play a crucial role in facilitating the stability, flexibility and decarbonisation of the European energy system. Industrial actors are central to enabling demand-side flexibility, provide opportunities for scaling the capture of CO_2, and support the development and consumption of RFNBO- and low-carbon hydrogen. To fully realise this potential, structural and meaningful engagement with EII must be embedded in the design of the Grids Package.

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We therefore urge the European Commission to establish a clear and legally binding basis for market participation in grid planning and operation, both at European and national levels. In most Member States concrete engagement of EII with a legal basis is missing in infrastructure and investment planning. While current Directives, Regulations and other legally binding measures require TSOs, DSOs, and regulatory authorities to formally consult system users (e.g., through the Ten-Year Network Development Plan process), the extent to which the consultation feedback is incorporated in proposals and decisions ultimately depends on how Member States implement these provisions. Consequently, the effectiveness of these consultations remains limited in practice. Aside from grid planning, EII require a legal basis to formally participate in the procedure of drafting terms and conditions for grid use and connection agreements for grid access from the onset. The Grids Package presents a unique opportunity to advance from symbolic to effective engagement, by creating robust consultation terms & conditions, formalising the role of EII and other grid users, and mandating decision makers to base their decisions on the drafts provided by TSO's and DSOs, as well as the consultation input by representative organisations of grid users.

Integrated approach to the energy system

An integrated technology-neutral approach to the energy system is crucial for establishing a resilient, competitive, efficient and affordable energy system in which all modalities – including electricity, hydrogen, and natural gas – can play their respective roles. Moreover, extensive investments in CO_2 transport and storage infrastructure are essential to decarbonize hard-to-abate sectors and thus a crucial enabler for an integrated and sustainable energy system.

To avoid overinvestment in a single modality, infrastructure planning must fully consider the complementary roles and synergies of the different energy modalities and CO_2. For example, in some instances, the deployment of hydrogen infrastructure in coordination with, rather than alongside, electricity infrastructure can contribute towards a more cost-effective energy system, reducing the need for costly investment in electricity grid expansion.

The development of the future energy system should consider synergies between the different modalities and coordinate spatial planning and construction of infrastructure such as electricity cables, hydrogen pipelines, and CO_2-pipelines along the same corridors where possible. A coordinated approach lowers overall costs, reduces the requirement for permitting, and minimizes disruptions to communities, while upholding the commitment to prevent undue delays to critical infrastructure development for a single modality.

At the same time, the future energy system must include a resilient and well-integrated natural gas infrastructure to ensure security of supply for all consumers during the transition. Natural gas infrastructure will continue to play a critical role for EII, especially when sustainable alternatives are not yet available. Natural gas infrastructure planning must balance the repurposing of existing assets for hydrogen and avoid stranded assets, while also allowing for targeted investments to accommodate industrial demand and decarbonisation trajectories. An uncoordinated or premature phase-out of the natural gas network unnecessarily compromises energy security and disrupts industrial activity. To avoid such outcomes, natural gas infrastructure must be fully integrated into system planning and in the drafting of the European

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Grids Package, enabling a gradual, flexible, and regionally differentiated transition that reflects industrial needs and local realities.

Flexible grid usage

The current and future energy supply is increasingly variable and weather dependent. The amount of flexibility and grid stability that was previously provided by fossil powerplants is decreasing. Additional system flexibility needs to be stimulated to compensate for the variability of renewable electricity generation. The variability of weather dependent electricity production also has a direct effect on other renewable sources, for example RFNBO-hydrogen production. By providing the right conditions we can enable EII to provide flexibility through demand response, use flexibility to resolve grid congestion and help reducing total infrastructure investments.

Clear guidelines and incentives are crucial to unlocking industrial flexibility for demand response. First, existing market barriers for industrial flexibility should be targeted so that this flexibility can be embedded in existing markets. Second, flexibility contracts must be designed in cooperation with representative organisations of EII to tailor to EII needs. Third, incorporating flexibility in production processes must be incentivised through remuneration or through discounts in network tariffs and subsidization of electrification projects if the unlocked flexibility is used to balance the system, reduce grid congestion or facilitate a reduction of required infrastructure investments.

At the same time, it is essential to acknowledge that many energy-intensive industrial processes are inherently limited in their ability to operate flexibly due to technical or economic constraints. Even fully electrified installations may offer little to no potential for flexibility. While differentiated network tariffs and alternative transport contracts are valuable tools to incentivise and remunerate flexibility, such mechanisms must be carefully designed and voluntary to avoid penalising baseload consumers who lack a realistic pathway to adapt their operations for flexibility without severely influencing their business case. Stimulating flexibility while penalising baseload consumers could also undermine a business case for electrification of energy-intensive industrial processes. The Commission has a key role to play in ensuring that these instruments are implemented in a balanced and equitable manner across the Union which stimulates flexibility without placing undue burdens on those that cannot adhere.

Grid load transparency

As mentioned before, flexible energy usage by EII can be used to lower grid congestion and total infrastructure investments. However, flexibility is not yet widely used. For example, a common problem in congested areas is the lack of congestion management services contracted by grid operators. This is partly caused by a mismatch between the offers by EII and the need of grid operators. Transparency in grid loads can help overcome this mismatch. EII are renowned for their resourcefulness and ability to find practical solutions when given the opportunity, the incentives, and sufficient information. This is why we propose to obligate grid operators to provide as much transparency on grid loads as needed to enable EII and other grid users to find solutions for better usage of the existing grid.

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Fair and effective cost allocation

The energy transition brings great infrastructural challenges. Electrification, renewable electricity production and other aspects of the energy and industry transition require large investments in grid expansion. These investments are not equally distributed between Member States. While most benefit greatly from the added renewable electricity provided by large production assets like offshore wind farms, these investments are not equally distributed among Member States. It's therefore imperative to find equitable solutions for dealing with the costs associated with these investments.

Firstly, cost allocation should be based on the principle that all countries and users benefiting from an infrastructure project should contribute to its costs. We propose to set up the possibility for cross-border cost sharing if a Member State invests heavily in infrastructure that benefits a neighbouring Member State. This would open the possibility for both Member States to share the total cost of the shared infrastructure. In this context, the ACER benefit threshold for involving non-hosting Member States should be maintained, as it ensures proportionality and procedural simplicity. However, where benefits are identified but fall below this threshold, such projects should still be eligible for EU co-financing. This would reflect the genuine European added value of such projects and help reduce the financial burden on hosting countries particularly for key internal reinforcements that are necessary to enable cross-border flows. Secondly, we propose to mark investments that are made to contribute to cross-border renewable energy trade as Projects of Common Interest in order to more accurately distribute the costs of the energy transition between Member States.

Cost sharing between Member States greatly improves cost reflectiveness but not necessarily affordability. In fact, efficiently designed new infrastructure may impose considerable costs on first movers. High investment costs shared between a relatively small number of users lead to unreasonably high network tariffs. The application of mechanisms such as intertemporal cost allocation have proven to be effective instruments which can help mitigate unbearable high network tariffs. Allocating part of the investment cost to future users can both increase the fairness of network tariffs and accommodate first movers while simultaneously introducing long term visibility on network tariff development, limiting barriers for investments by grid users.

Fundamentally, with the massive grid investments needed in the years ahead, exploration of alternative financing models is crucial. This includes options to leverage public financing, as well as guarantee-mechanisms. While national-level guarantees are already possible, it is worth exploring whether EU-level guarantees could further contribute to the affordability of network tariffs by reducing financing costs, WACC, and improving investment certainty for both infrastructure developers and industrial users. The scale of grid investment required is not matched by current funding instruments. A change in financial ambition is needed with a significant increase in public support through EU-level funding for strategic grid projects, alongside simplified and more predictable access conditions, particularly for internal reinforcements that are essential to unlocking cross-border potential. Action is crucial for offshore projects, cross-border interconnections and anticipatory investments that enable the timely electrification of industrial clusters, to sustain – and strengthen – Europe's EII and enable the realization of the EU's climate targets.

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Risk management

Large-scale infrastructure development faces several uncertainties like complex and lengthy permitting procedures, the uncertain development of transport tariffs, and uncertainty over whether upstream or downstream counterparts will take Final Investment Decisions (FIDs) in time. For electricity, one of the most pressing bottlenecks is the excessive grid connection time with waiting periods reaching 8 to 10 years in several Member States. These uncertainties, combined with steep connection costs, and the high level of interdependency in the value chain create systemic risks and threaten to stall the European energy transition. As a result, both producers and industrial consumers are postponing FIDs. It is crucial that stalling development of a well-functioning infrastructure does not become the bottleneck for the development of a sustainable economy. To secure the development of a sustainable economy connection agreement contracts offered by network operators of hydrogen should be revised. A copy and paste approach of natural gas connection contracts does not fit the current maturity of the European hydrogen economy with its considerable uncertainty and resulting risks mentioned above. The revised contracts should include risk sharing more aligned with the needs of EII. Additionally, tools such as guarantees, risk-sharing mechanisms, and predictable revenue frameworks are essential to improve the investment conditions for EII and infrastructure developers for all modalities across the board. A more integrated and coherent approach at European level, which aligns policy priorities with financial support across the entire project lifecycle, would significantly strengthen business cases and support delivering industrial decarbonisation.

Conclusion

We would like to express our commitment to provide constructive and concrete input to the development of the European Grids Package. As outlined above, the current framework constrains the effective participation of European industry in infrastructure planning, system operation and financing tools. We therefore urge the European Commission to address these barriers and to establish a clear and legally binding basis for involvement of European industry.

The contribution of energy-intensive industry is indispensable to achieving a competitive, efficient, climate-neutral, and secure European energy system. We remain fully committed to support the Commission and remain available to provide further input or clarification. We look forward to continued dialogue to ensure that the Grids Package facilitates a swift European energy- and industry transition.

Yours sincerely,

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President
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