E.DSO Assessment of the Commission's MFF Proposals - Contribution to the Feedback Consultation

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Introduction

E.DSO, representing Europe's leading electricity distribution system operators (DSO), welcomes the publication of the European Commission's proposal for the next Multiannual Financial Framework (MFF). We appreciate the Commission's efforts to align the EU budget with Europe's strategic priorities and to equip the Union to address the challenges ahead. As operators at the heart of Europe's electricity system, we stand ready to support the effective implementation of the next MFF to ensure that Europe's grids continue to deliver reliable, secure and affordable electricity to all consumers.

Distribution System Operators (DSOs) face numerous challenges as they work to expand, modernise and maintain Europe's vast electricity distribution network, which comprises around 10 million kilometres of power lines and 4 million distribution transformers. Substantial financial investment is required to ensure the grid can meet future needs, with an estimated annual investment challenge of approximately €67 billion until 2050[1]. This is particularly urgent as around 40% of the EU's distribution grid is over 40 years old and requires significant upgrades to remain reliable and efficient.

Electricity grid investments remain a major bottleneck for Europe's competitiveness and the energy transition, as highlighted in the Draghi and Letta reports. Increased grid funding is therefore both necessary and strategic. Historically, DSOs have struggled to access sufficient EU-level funding: a recent European Commission study found that funding programmes under the Common Provisions Regulation (CPR), only 4% of all energy-related funds were dedicated to grids[2].

According to the Draghi Report[3]:

[1] Eurelectric, Grids for Speed, 2024, available at: https://powersummit2024.eurelectric.org/grids-for-speed/

[2] European Commission, Open Data Portal for the European Structural and Investment Funds, available at: https://cohesiondata.ec.europa.eu/

[3] European Commission, *The Future of European Competitiveness: In-Depth Analysis and Recommendations (Part B)*, 9 September 2024, p. 21, available at:

"Accelerated renewable energy deployment will not bring the expected benefits if the network becomes the next bottleneck. Furthermore, grids, flexibility and storage solutions must advance in parallel to enable decarbonisation. ***For every euro spent on clean power in Europe during the 2022–2040 period, €0.9 of grid investment will be required to achieve the EU's climate ambitions.*** *The massive investments needed (grid investments alone will require around €90 billion each year between 2031 and 2040) may increase the bill for households and companies, unless appropriate planning and financing models are developed."*

Modern electricity networks are a key part of Europe's global competitiveness. Optimised and well-maintained grids enable greater access to stable and lower-cost renewable electricity while reducing dependence on volatile fossil fuels. Grid investments also unlock economies of scale by allowing clean power to flow across borders, reducing price differentials and supporting industrial supply corridors. Moreover, smart-grid digitalisation enhances efficiency through demand response and dynamic pricing, enabling industries to shift consumption to cheaper hours and improving overall affordability. Finally, the comparatively greater reliability of European grids from these investments is itself a competitive advantage.

EU funding instruments should operate in synergy to support projects from conception through demonstration to full-scale deployment. In practice:

- **Horizon Europe** supports early-stage research and technological conception;
- The **European Competitiveness Fund (ECF)** covers the entire pathway from innovation to scale-up and market uptake;
- The **Connecting Europe Facility (CEF)** supports cross-border infrastructure and European-wide deployment of innovative grid solutions;
- The **National and Regional Partnership Plans (NRPPs)** enable grid investment and implementation at national and regional levels.

The following sections provide more detail on each of these funding streams and how they can support distribution grid infrastructure. Concrete policy recommendations are found at the end of the document.

Connecting Europe Facility (CEF)

E.DSO strongly supports the increase of the CEF budget to €30 billion and stresses that this ambition must be preserved in the final agreement following the negotiations. This level of funding is essential given the significant expansion of the Trans-European Networks for Energy (TEN-E) Regulation's scope and the eligibility of new technologies to benefit from CEF funding. At the same time, it is essential to avoid diluting CEF Energy's strategic focus. CEF must continue to prioritise high-impact infrastructure that delivers on the objectives of the TEN-E, which include affordability and market integration, security of supply and cross-border relevance. It should work in full complementarity with National and Regional Partnership Plans (NRPPs) and the European Competitiveness Fund (ECF), while remaining the main EU instrument for cross-border and system-wide electricity infrastructure, not a general innovation fund.

Electricity infrastructure projects must receive the attention and funding they deserve within CEF. The growing focus on CO_2 and hydrogen projects should not come at the expense of

https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en#paragraph_47059

electricity networks, which remain the backbone of Europe's energy transition. With the proposed CEF Regulation placing strong emphasis on cross-border aspects, it is vital that the Smart Electricity Grid (SEG) category continues to qualify for Project of Common Interest (PCI) status and for CEF funding in the next revision of TEN-E.

So far, SEG projects have received limited attention under the PCI and CEF frameworks. Looking ahead to CEF3, **an earmarking or dedicated window for Smart Electricity Grid projects should therefore be considered** to ensure sufficient and targeted support. In this context, cross-border value should be understood not only in geographical terms but also in terms of functional contribution to a single integrated EU energy market. Distribution grids can provide EU-level benefits for market integration, system flexibility and security of supply even when assets sit entirely within one Member State and should therefore remain eligible for support.

DSO Eligibility for Projects of Mutual Interest (PMI)

SEGs must be eligible for PMI status under the TEN-E Regulation. Although SEGs are explicitly recognised in the TEN-E framework, they are excluded from PMI eligibility, unlike hydrogen and CO_2 infrastructure, which have far more limited systemic impact on energy affordability and industrial competitiveness.

This exclusion is inconsistent with the EU's competitiveness objectives. SEGs are critical enablers of this agenda. **If SEGs are recognised as priority infrastructure in the TEN-E Regulation, their eligibility should extend to all relevant categories, including PMIs.** Ensuring such consistency would strengthen the credibility and coherence of the EU's policy framework.

Making SEGs eligible for PMIs would correct this imbalance and unlock cross-border smart grid projects that enhance interconnectivity, digitalisation, and system efficiency. It would also send a clear signal that the EU values the infrastructure that delivers affordable, clean energy to consumers and industry not just emerging technologies with narrower scope.

Remove Barriers to Benefit from EU Funding

When pursuing EU funding, DSOs face disincentives when National Regulatory Authorities (NRAs) exclude grant-financed assets from the Regulatory Asset Base (RAB) or apply taxation to grants. This practice undermines the purpose of EU funding by redirecting public support away from infrastructure development and discouraging DSOs from engaging in complex application processes. Stated more generally, when EU funding programmes are designed to be equally accessed regardless of MS or region, inconsistent regulatory barriers placed on them have the effect of subverting the intentions of European institutions.

Taxing grants is particularly counterproductive. It erodes the value of public investment, penalises recipients for securing EU support, and contradicts the principle that strategic funding should de-risk, and not burden critical infrastructure projects.

In some Member States (MS), regulatory frameworks offer incentives such as additional WACC or depreciation for assets financed by grants. These models encourage DSOs to pursue PCI and CEF projects. However, in many MS, the absence of such mechanisms, combined with increased OPEX, results in net negative financial results. This has contributed to the lack of Smart Electricity Grid projects on the PCI list, as confirmed by a recent survey by E.DSO.

To unlock the full potential of EU funding, regulatory frameworks must ensure that grants translate into real investment incentives. This includes allowing regulatory depreciation for CAPEX and exempting grants from taxation.

National & Regional Partnership Plans (NRPPs)

Electricity distribution networks are essential enablers of decarbonisation, regional cohesion and energy security, and should therefore stand among the top priorities of the NRPPs. It is positive that distribution grids have been explicitly included among the policy objectives of NRPPs under Article 3, and this principle must be safeguarded during upcoming negotiations.

To maximise impact, funding for distribution grids under the NRPPs should be complementary to other EU instruments such as the ECF and the CEF. This complementarity is key to creating a coherent investment pathway for DSOs, from innovation to large-scale deployment. Moreover**, a dedicated share of funding under NRPPs should be identified for DSOs across the seven-year period, with the level of support matching the pace of electrification and renewable deployment,** ensuring that grid development keeps up with growing system needs.

The introduction of the money for reform principle envisaged in the NRPPs should be carefully designed. For instance, milestones and targets defined in one sector should not be linked to disbursement in unrelated sectors, so to avoid creating holdbacks for time-sensitive grid investments when reforms in unrelated sectors are pending. Experience under the Recovery and Resilience Facility (RRF) showed that aggregated reform packages can delay energy disbursements; future arrangements should sequence milestones so that energy funding depends on energy relevant deliverables. This preserves the principle while ensuring predictable financing for infrastructure that enables the transition.

In the context of this new budget, the logic should shift from what could be funded to what should be funded, ensuring that NRPP resources actively support distribution grids as a matter of strategic priority. The Cohesion Data Platform[2] reveals that, under the previous budget period, only 4% of energy-related Common Provisions Regulation (CPR) funding was allocated to grids. This figure is far below what is needed to meet Europe's decarbonisation and competitiveness objectives according to the assertion by the Draghi report that 90 eurocents should be invested in grids for every euro in clean power (47%)[3]. The next MFF must therefore provide stronger guidance and prioritisation to reinforce Europe's critical electricity infrastructure, replace obsolete assets, and strengthen both physical and cyber resilience.

European Competitiveness Fund (ECF)

The ECF, together with Horizon Europe, should provide a seamless pathway from early-stage innovation to large-scale deployment, ensuring that promising technologies reach the market without interruption. Avoiding funding gaps between research, pilot and implementation phases is essential to bring concrete support and accelerate Europe's clean transition.

The ECF can become a key instrument for DSOs to support innovation and electrification. Within the Clean Transition window, a defined share of funding should be earmarked for electricity distribution networks, with allocations evolving in line with the pace of electrification. This would ensure that infrastructure development keeps up with demand, according to the EU

electrification target of 32% in 2030[4], and that grids do not become a bottleneck to Europe's industrial transformation.

Horizon Europe remains a vital complement to the ECF, and E.DSO supports the proposed increase of its envelope to €175 billion. A recent E.DSO survey confirmed that Horizon Europe has been the main EU funding instrument for DSOs over the past decade. Respondents consider it well focused, though they point to challenges such as large consortium sizes and rigid administrative requirements, which can limit the flexibility needed for truly innovative projects.

Under the ECF, the design of the Clean Transition and Industrial Decarbonisation window should integrate the network dimension of electrification. The current Decarbonisation Bank pilot focuses on electrifying industrial process heating, but it is essential that the related grid reinforcement costs are appropriately covered. Industrial electrification cannot advance without sufficient network capacity. Funding under the ECF should therefore make grid-related investments explicitly eligible to ensure coordinated planning between industrial demand and network development, and to avoid shifting unfinanced costs onto DSOs.

The Commission's proposal to deploy blended finance within the ECF – combining grants and loans – can help reduce upfront costs and debt exposure for DSOs. Its effectiveness, however, depends on the balance between grants and loans, the associated conditions and the flexibility granted during implementation. As investment needs evolve, these parameters should be regularly reviewed to keep the instrument aligned with the sector's realities.

Finally, the structure and eligibility criteria of the Innovation Fund implicitly exclude DSO investments, as the instrument is focused on specific low-carbon technologies rather than system infrastructure. **The Clean Transition and Industrial Decarbonisation window should therefore play for DSOs the role the Innovation Fund plays for its target technologies**, offering a tailored mechanism to support grid innovation and deployment consistent with the EU's decarbonisation and competitiveness objectives.

Grid investments are not just a cost, but a strategic investment in Europe's future. E.DSO looks forward to working with the EU institutions during the MFF negotiation process to ensure the EU budget addresses current challenges and helps electricity grids fulfil their vital role in the energy transition and the success of Europe's economy and society.

Policy Recommendations

1. **Maintain the proposed increase of the CEF budget to €30 billion in the final MFF agreement**

This ambition must be preserved as it reflects the essential role of electricity networks in achieving EU energy and competitiveness goals.

2. **Ensure that CEF Energy continues to prioritise electricity infrastructure**

[4] European Commission, *The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation, COM(2025)*, Brussels, 26 February 2025, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52025DC0085

CEF must stay focused on projects delivering affordability, market integration and security of supply, and dedicate funds to distribution networks.

3. **Ensure SEG remain eligible for PCI status and CEF funding under the next revision of TEN-E Regulation**

SEG eligibility for PCI and CEF support is vital to maintain the EU's focus on grid projects with cross-border and system-wide benefits.

4. **Establish earmarking or a dedicated window for SEG projects under CEF3**

A specific CEF window for SEGs would guarantee targeted support and recognise cross-border value beyond geography, reflecting their EU-wide market contribution.

5. **Make SEG eligible for PMI status under the TEN-E Regulation**

Extending PMI eligibility to SEGs would correct an inconsistency and enable cross-border projects that strengthen digitalisation, flexibility and system efficiency – recalling that, currently, SEGs are the only infrastructure category not eligible for PMI status.

6. **Remove regulatory and fiscal barriers that prevent DSOs from benefiting from EU funding**

Regulatory frameworks must allow depreciation for CAPEX financed by grants and exempt them from taxation to ensure EU support becomes a real investment incentive.

7. **Ensure that distribution grids remain among the top priorities of the NRPPs**

Distribution grids must be explicitly prioritised in NRPPs, with a dedicated share of funding matching the pace of electrification and renewable deployment.

8. **Earmark a defined share of funding for distribution grids under the ECF**

A clear share of the Clean Transition window should support DSOs, ensuring grid reinforcement for industrial electrification and a balanced grants-to-loans mix.

9. **Ensure coherence and complementarity between Horizon Europe, the ECF, the CEF and the NRPPs**

EU funding instruments should form a seamless pathway from research to deployment, avoiding overlaps and gaps across innovation, scale-up and implementation.