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## **Danish Energy Association's response to CEEAG hearing, August 2021**

We are happy to present our comments to the Climate, Energy and Environmental Aid Guidelines (CEEAG). Indeed, state aid rules are an important factor to ensure an optimized green transition trajectory across Europe.

Danish Energy Association welcomes the ambition to bring state aid guidelines in line with the EU's climate and energy objectives. We fully support the Union's climate target of 55 % reduction of greenhouse gases by 2030, however, to fully succeed with decarbonisation in the Union it is necessary to also focus on the target of climate neutrality by 2050. Investments in the energy sector typically have technical and economic lifetimes spanning more than 20 years. Investment decisions made today affect and contribute to designing the European energy system for the next 20-30 years.

To meet the Union's long-term climate target, it is crucial to promote and incentivise investment in and deployment of renewable, zero-emission energy and technologies. This should be emphasised in all relevant EU legislation and guidelines, including the CEEAG. Therefore, it is important to clearly distinguish between renewable energy, which is necessary to get us all the way to climate neutrality in 2050, and low carbon energy, which will only get us some of the way.

Europe has a leadership position in commercialised and industrialised renewable energy, which has helped to drive down cost of e.g., offshore wind. Furthermore, Europe has a leadership position in the development and commercialization of renewable hydrogen and other renewable fuels of non-biological origin (RFNBO). These leadership positions should be maintained to the benefit of decarbonisation within in Europe and globally as well as development of economic activities in the Union.

Our comments to the specific sections of the CEEAG follow the structure and headlines of the draft guidelines. We therefore hope, you will take our thoughts into account.

## **General remarks regarding scope, definitions, competitive bidding processes, etc. (sections 2 and 3)**

### **Scope**

Danish Energy Association welcomes and supports the broadening of the CEEAG scope to cover all renewable technologies that are affected by market failures and contribute to the effective and efficient decarbonisation of the EU economies.

Furthermore, fossil energy and fossil feedstocks still have a significant role in the guidelines, *which we believe does not fit the Union's decarbonisation and climate ambitions*. One example of fossil energy in the current draft it is possible for CNG- or LNG vehicles to receive support if there is a 20% blending of biogas or RFNBOs (renewable fuels of non-biological origin), or if there are no alternative vehicles on the market (paragraph 162). Another example of fossil energy is the fact that natural gas infrastructure can be supported if it is "fit" to carry hydrogen or other RFNBOs (paragraph 339(c))

In other European energy legislation, such as TEN-E, the recent/current revisions exclude infrastructure for fossil energy such as natural gas and/or include very specific requirements for transition to renewable such as hydrogen. *For the CEEAG to enable and facilitate the Union's targets of GHG reduction of at least 55 % by 2030 and climate neutrality by 2050, we consider the requirements of 20 % blending of or an unspecified fit to carry hydrogen or other RFNBOs insufficient. Furthermore, the "fit" to carry hydrogen or other RFNBOs criteria should come with a clear timeline on when this will happen.*

### **Definitions (section 2.4):**

#### Definition of "low carbon" lacking

"Low carbon" is used as a term in central paragraphs throughout the guidelines - e.g., "low carbon energy", "low carbon gas" and "low carbon fuels" – but there is no clear definition of "low carbon" neither in the guidelines or by references to other legislation. One would assume that low carbon refers to fossil fuels e.g., combined with CCS which does not capture all of the emitted CO<sub>2</sub> from the fossil process.

*It is very relevant and important that "low carbon" is clearly defined and applied in alignment with EU's long term climate ambitions, i.e. it should be clearly recognised that renewable energy contribution more to achieving EU's climate targets than low carbon energy. The definition of low carbon energy should be at least as ambitious as the definition in the sustainable finance taxonomy with regard to emissions. Furthermore, as low carbon energy and fuels emit greenhouse gases, the threshold for accepted emissions in the definition should become over ambitious over time.*

#### Definition of CCS and CCU (paragraphs 18(13) and (14))

The definitions of CCS and CCU do not include CO<sub>2</sub> emissions from industrial processes such as the melting of limestone for cement production emits CO<sub>2</sub>, i.e. not the emissions from combustion of fuels/energy.

A distinction between different types of CCS and CCU is necessary. Capture of biogenic carbon which is permanently stored result in negative emissions, because the carbon in question which has already been absorbed from the atmosphere during the growth of the biomass

is permanently talking out of the atmospheric system. By contrast, CCS with carbon from fossil fuels is carbon-neutral for the part of the carbon which is captured (the current technology does not capture all of the emitted CO<sub>2</sub>). This could make sense for hard-to-abate sectors where renewable alternatives are not available. It should also be noted, that for fossil fuels, upstream emissions such as CO<sub>2</sub> and/or methane will remain regardless of capture rates at the point of final emission. Utilisation of biogenic carbon results in carbon-neutral fuels, such as e-kerosene for aviation or e-methanol for shipping where no new CO<sub>2</sub> is emitted to the atmosphere. CCU with carbon from fossil fuels can be considered to be a carbon positive measure where carbon-emissions are recycled, i.e. the user of e.g kerosene with carbon from fossil energy is emitting CO<sub>2</sub> instead of unit where the carbon is captured.

CEEAG draft	Danish Energy Association's suggestion
<p><b>18(13)</b> 'carbon capture and storage' or 'CCS' means a set of technologies that captures the carbon dioxide (CO<sub>2</sub>) emitted from industrial plants based on fossil fuels or biomass, including power plants and waste-to-energy plants [or captures it directly from ambient air], transports it to a storage site and injects the CO<sub>2</sub> in suitable underground geological formations for the purpose of permanent storage of CO<sub>2</sub>;</p>	<p>(13) 'carbon capture and storage' or 'CCS' means a set of technologies that captures the carbon dioxide (CO<sub>2</sub>) emitted from industrial plants based on fossil fuels or biomass, including power plants and waste-to-energy plants, <i>or from industrial processes</i>, [or captures it directly from ambient air], transports it to a storage site and injects the CO<sub>2</sub> in suitable underground geological formations for the purpose of permanent storage of CO<sub>2</sub>; <i>While bioenergy + carbon capture and storage (BECCS) can, in case of sustainable biomass sourcing, be considered carbon negative, CCS from fossil fuels can be considered as a measure for reducing carbon-emissions.</i></p>
<p><b>18(14)</b> 'carbon capture and use' or 'CCU' means a set of technologies that captures the CO<sub>2</sub> emitted from industrial plants based on fossil fuels or biomass, including power plants and waste-to-energy plants [or captures it directly from ambient air], and transports it to a CO<sub>2</sub> consumption or utilisation site;</p>	<p>(14) 'carbon capture and use' or 'CCU' means a set of technologies that captures the CO<sub>2</sub> emitted from industrial plants based on fossil fuels or biomass, including power plants and waste-to-energy plants, <i>or from industrial processes</i>, [or captures it directly from ambient air], and transports it to a CO<sub>2</sub> consumption or utilisation site; <i>While bioenergy + carbon capture and utilization can, in case of sustainable biomass sourcing, be considered temporarily carbon negative, or permanently carbon neutral, CCU from fossil fuels can be considered to be a carbon positive measure for recycling carbon-emissions.</i></p>

#### Definition of smart gas grids (paragraph 18(35)(b)(v)):

The definition of "smart gas grid" should be aligned with definition in the revision of the regulation on guidelines for trans-European energy infrastructure (Article 2(1)(9) in TEN-E) where a clear emphasis is made on smart gas grids enabling integration of renewable gases with the phrase "particularly renewable gas".

#### Definition of "energy infrastructure" (paragraph 35)

To support large scale offshore wind deployment Denmark has agreed to establish a so-called "energy island". The energy island will be based 100 km of the coast of Jutland in the North Sea. The main purpose of the energy island is to support offshore wind farms, infrastructure, and possible electrolysis in the long run. When fully developed, the island is in-

tended to support the renewable energy production from 10 GW offshore wind. The structure constitutes a physical island, which does not directly fall under the 35 (a). We consider the physical island an essential element in the energy infrastructure and suggest that this is made clear in the guidelines.

With the development of hybrid assets and hubs connected to several countries and electricity markets we emphasize the importance of interoperability. To remove the barriers for successful system integration we suggest that all necessary information to make interoperability possible is made available to relevant parties.

We suggest the following formulation:

CEEAG draft	Danish Energy Association's suggestion
<p><b>35 (a) (v)</b> off-shore electricity grids, which means any equipment or installation of electricity transmission or distribution infrastructure, as defined in point (i) above, which has dual functionality: interconnection and transmission or distribution of offshore renewable electricity from the offshore generation sites to two or more countries. This also includes any offshore adjacent equipment or installation essential to operate safely, securely and efficiently, including protection, monitoring and control systems, and necessary substations if they also ensure technology interoperability and inter alia interface compatibility between different technologies</p>	<p><b>35 (a) (v)</b> off-shore electricity grids, which means any equipment or installation of electricity transmission or distribution infrastructure, as defined in point (i) above, which has dual functionality: interconnection and transmission or distribution of offshore renewable electricity from the offshore generation sites to two or more countries. This also includes any offshore adjacent equipment or installation, <b>including artificial islands</b>, essential to operate safely, securely and efficiently, including protection, monitoring and control systems, and necessary substations if they also ensure technology interoperability <b>by</b> inter alia <b>making all the necessary information available to enable</b> interface compatibility between different technologies</p>

#### **Incentive effect for projects starting before the aid application (paragraph 30):**

We support the recognition of exceptional cases where aid can have an incentive effects even for projects started before the aid application. This should also be implemented in GBER.

#### **Detailed bidding conditions (paragraph 48):**

We support a competitive bidding process and therefore the principles of paragraph 48. Creating tender conditions which balances risk and reward for the participants is crucial to ensure cost-effective transition to carbon neutrality.

Undersubscription is not necessarily associated with an unattractive support- or auction scheme but can be related to other administrative or regulatory barriers. We advise against re-designing bidding conditions as re-designs distort transparency amongst developers and might very well have negative effect on the overall development of renewable energy sources.

### Residual market failure (paragraph 40):

We welcome that the CEEAG highlights that state aid should address residual market failures, cf. paragraph 36. Further, paragraph 40 states that aid schemes may not “undermine the efficiency of the market-based mechanism” which would, however, be very difficult to assess in practice.

Measures to increase renewable energy deployment or energy efficiency could be argued to affect the Union’s ETS, as such measure would obviously reduce the demand for CO2 allowances. However, there are still many barriers for renewable energy and energy efficiency, which will not be addressed sufficiently through carbon pricing.

For clarification on this matter, we therefore propose to make the following amendment to paragraph 40.

CEEAG draft	Danish Energy Association’s suggestion
<p><b>40.</b> Different measures to remedy the same market failure may counteract each other. This is the case where an efficient, market-based mechanism has been put in place to specifically counter the problem of externalities, as for instance the Union’s ETS. An additional support measure to address the same market failure risks undermining the efficiency of the market-based mechanism. Therefore, when an aid scheme aims at addressing residual market failures, the aid scheme must be designed in such a way as to not undermine the efficiency of the market-based mechanism.</p>	<p><b>40.</b> Different measures to remedy the same market failure may counteract each other. This is the case where an efficient, market-based mechanism has been put in place to specifically counter the problem of externalities, as for instance the Union’s ETS. An additional support measure to address the same market failure risks undermining the efficiency of the market-based mechanism. Therefore, when an aid scheme aims at addressing residual market failures, the aid scheme must be designed in such a way as to <del>not undermine the efficiency of</del> <b>minimize negative impacts on</b> the market-based mechanism.</p>

### Selection criteria in the competitive bidding process (paragraph 49):

We generally support the guiding principle that the selection criteria in the competitive bidding process should be based on the aid amount requested by the applicant, as well as the possibility to include other non-price selection criteria in exceptional cases (not accounting for not more than 25% of the weighting of all the selection criteria).

None-price criteria can be successful and beneficial if they are transparent, clearly defined, technology-neutral, and not introduced or changed retroactively. Inspiration for non-price criteria can be found in up-coming Dutch tender, where projects are evaluated on environmental performance and innovation.

The need for state aid for renewable energy productions has decreased significantly and we expect to see zero-subsidy bids before 2030. This implicitly means non-price criteria will take up more than 25%. There is a need for considering and clarifying how to maintain a 25% non-price selection cap in zero-subsidy scenarios.

### Transition fuels (paragraphs 65 and 71):

We find it positive that the draft of the CEEAG considers the different steps on the path towards EU’s long-term climate target. However, as emphasised in the introduction of this response letter, it is important to not just focus on 2030 and the short-/mid-term targets but also

to keep climate neutrality in 2050 in mind. To reach the mid- and long-term targets it is crucially important to clearly distinguish between renewable energy, where capacities need to increase substantially, and fossil fuels (natural gas, coal and oil), where demand is projected to decrease drastically in climate neutral scenarios.

The European Green Deal Communication (COM/2019/640) clearly states an intention to end fossil fuels subsidies and does not distinguish between how much they pollute between them.

We find it concerning that the draft guidelines seem to suggest that the negative environmental affects do not apply to natural gas projects without lock-in effect. Whether there is a lock-in effect or not, burning natural gas will emit CO<sub>2</sub> and its production and transport emits CH<sub>4</sub> - both of which have a clearly negative environmental effect. It is questionable to suggest that certain types of fossil fuels are not likely have negative environmental effects.

Please find our specific suggestions for changes to relevant paragraphs in the table below.

CEEAG draft	Danish Energy Association's suggestion
<p><b>65.</b> State aid for environmental and energy objectives may have the unintended effect of undermining market rewards to the most efficient, innovative producers as well as incentives for the least efficient ones to improve, restructure or exit the market. This may also result in inefficient barriers to the entry of more efficient or innovative potential competitors. In the long term, such distortions may stifle innovation, efficiency and the adoption of cleaner technologies. These distortive effects can be particularly important when the aid is granted to projects that provide a limited transitory benefit but lock out cleaner technologies for a longer term, including those necessary to achieve the medium-term and long-term climate targets enshrined under the European Climate Law. This can, for example, be the case for support to certain activities using fossil fuels that provide an immediate reduction of green house gas emissions, but lead to slower emissions reductions in the long term. All other things being equal, the closer the aided investment is in time to the relevant target date, the greater the likelihood that its transitory benefits may be outweighed by the possible disincentives for cleaner technologies. The Commission will therefore take into account these possible short and long term negative effects on competition and trade in its assessment.</p>	<p><b>65.</b> State aid for environmental and energy objectives may have the unintended effect of undermining market rewards to the most efficient, innovative producers as well as incentives for the least efficient ones to improve, restructure or exit the market. This may also result in inefficient barriers to the entry of more efficient or innovative potential competitors. In the long term, such distortions may stifle innovation, efficiency and the adoption of cleaner technologies. These distortive effects can be particularly important when the aid is granted to projects that provide a limited transitory benefit but lock out cleaner technologies for a longer term, including those necessary to achieve the medium-term and long-term climate targets enshrined under the European Climate Law. This can, for example, be the case for support to certain activities using fossil fuels that provide an immediate reduction of green house gas emissions, but lead to slower emissions reductions in the long term. All other things being equal, the closer the aided investment is in time to the relevant target date, the greater the likelihood that its transitory benefits may be outweighed by the possible disincentives for cleaner technologies. <b>However, the long economic lifetime of energy infrastructure investments should be carefully addressed when doing this assessment.</b> The Commission will therefore take into account these possible short and long term negative effects on <b>sustainability</b>, competition and trade in its assessment.</p>
<p><b>71.</b> Measures that directly or indirectly involve support to fossil fuels, in particular the most polluting fossil fuels, are unlikely to create positive environmental effects and often have important negative effects because they can increase the negative environmental externalities in the market. The same</p>	<p><b>71.</b> Measures that directly or indirectly involve support to fossil fuels, <del>in particular the most polluting fossil fuels</del>, are unlikely to create positive environmental effects and often have important negative effects because they can increase the negative environmental externalities in the market. The same</p>

applies for measures involving new investments in natural gas, unless it is demonstrated that there is no lock-in effect. This will in principle render a positive balancing for such measures unlikely, as further explained in Chapter 4.	applies for measures involving new investments in natural gas, <del>unless it is demonstrated that there is no lock-in effect.</del> This will in principle render a positive balancing for such measures unlikely, as further explained in Chapter 4.
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### Environmentally sustainable economic activities (paragraph 69)

We would welcome clarifications on what “the Commission will pay particular attention” entails. Furthermore, we believe that all sectors subject to state-aid guidelines should receive equal treatment, in particular with regard to linking the state aid framework with the EU taxonomy regulation. The energy sector, included electricity and renewable hydrogen, is among the most progressive industries in Europe and is leading the way in the European decarbonization journey. Therefore, the energy sector should not be the only sector facing this criterion and we call for applying some form of environmental conditionality in competition and state-aid policies across all sectors.

## 4.1 Aid for the reduction and removal of GHG emissions, including through support for renewable energy

### Scope of aid for renewable energy (paragraphs 74, 75 and 108):

The European Green Deal, as well as the EU’s commitments under G20, clearly points in the direction of ending subsidies for fossil fuels. Furthermore, the largest increases in energy sources will need to come from renewable energy, and renewable energy should therefore be underlined in the guidelines. We therefore recommend amending the scope of chapter 4.1 to only include renewable and carbon neutral energy and to delete the reference to low carbon (fossil fuel) energy (as defined in paragraphs 74 and 75)

We support the principle in paragraph 108 not to stimulate or prolong the consumption of fossil-based fuels and energy and to avoid carbon lock-in. Based on this and the fact that “low carbon” is not defined in the guidelines, we recommend to oblige Member States to commit themselves to using mainly renewable energy by amending paragraph 108 as indicated in the table below.

CEEAG draft	Danish Energy Association’s suggestion
<p><b>Chapter 4.1 - Title</b></p> <p>Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy</p>	<p><b>Chapter 4.1 - Title</b></p> <p>Aid for the reduction and removal of greenhouse gas emissions, <del>including</del> <b>particularly</b> through support for renewable energy</p>
<p><b>74.</b> This Section lays down the compatibility rules for aid measures primarily aimed at reducing greenhouse gas emissions, including aid for the production of renewable and low carbon energy, aid for energy efficiency including high-efficiency cogeneration, aid for carbon capture, storage and use, and aid for the reduction or avoidance of emissions resulting from industrial processes. It also covers support for the removal of greenhouse gases from the environment. This Section does not apply to measures whose primary objective is not the reduction or removal of greenhouse gas emission. Where a measure contributes to both the reduction of greenhouse gas emissions and</p>	<p><b>74.</b> This Section lays down the compatibility rules for aid measures primarily aimed at reducing greenhouse gas emissions, including aid for the production of <b>particularly</b> renewable and <b>where relevant</b> <del>low</del> <b>other</b> carbon <b>neutral</b> energy, aid for energy efficiency including high-efficiency <b>renewables-based</b> cogeneration, aid for carbon capture, storage and use, and aid for the reduction or avoidance of emissions resulting from industrial processes. It also covers support for the removal of greenhouse gases from the environment. This Section does not apply to measures whose primary objective is not the reduction or removal of greenhouse gas emission. Where a measure contributes to both the reduction of greenhouse gas emissions and</p>

the prevention or reduction of pollution other than from greenhouse gas emissions, the compatibility of the measure will be assessed on the basis of this Section or Section 4.5, depending on which of the two objectives is predominant.	the prevention or reduction of pollution other than from greenhouse gas emissions, the compatibility of the measure will be assessed on the basis of this Section or Section 4.5, depending on which of the two objectives is predominant.
<b>75.</b> This Section also covers dedicated infrastructure projects (including for hydrogen and other low-carbon gases, and as well as CCS/CCU) that do not fall under the definition of energy infrastructure.	<b>75.</b> This Section also covers dedicated infrastructure projects ( <del>including</del> <b>particularly</b> for <b>renewable</b> hydrogen and other <del>low-carbon</del> <b>renewable and zero carbon</b> gases, and as well as CCS/CCU) that do not fall under the definition of energy infrastructure.
<b>108.</b> Aid for decarbonisation may unduly distort competition where it displaces investments into cleaner alternatives that are already available on the market, or where it locks in certain technologies, hampering the wider development of a market for and the use of cleaner solutions. The Commission will therefore also verify that the aid measure does not stimulate or prolong the consumption of fossil-based fuels and energy, thereby hampering the development of cleaner alternatives and significantly reducing the overall environmental benefit of the investment. Member States should explain how they intend to avoid that risk, including by way of binding commitments to use mainly renewable or low carbon fuels or phase out fossil fuel sources.	<b>108.</b> Aid for decarbonisation may unduly distort competition where it displaces investments into cleaner alternatives that are already available on the market, or where it locks in certain technologies, hampering the wider development of a market for and the use of cleaner solutions. The Commission will therefore also verify that the aid measure does not stimulate or prolong the consumption of fossil-based fuels and energy, thereby hampering the development of cleaner alternatives and significantly reducing the overall environmental benefit of the investment. Member States should explain how they intend to avoid that risk, including by way of binding commitments to use mainly renewable <del>or low-carbon</del> fuels or phase out fossil fuel sources.

### **Avoiding overcompensation (paragraph 91):**

A competitive bidding process is important to limit the risk of overcompensation. This risk of overcompensation should be limited by the set of rules for this competitive process and by fostering the participation to this process. If rules are too complex or parameters are ill-calibrated, they could be detrimental to this participation.

The power-to-X (PtX) value chain can involve several steps where renewable energy is converted into other forms of energy or fuel. It is important that Member States are given flexibility to support the PtX value chain in various ways, and this includes breaking it down into different support mechanisms for each part, where the sum of combined subsidies cannot be higher than the total cost gap. For example, MWh can be supported once as electricity, then again as hydrogen and then again as methanol as long as the subsequent support mechanisms are only covering additional costs of conversion.

*The guidelines should be more explicit about how combining support from different sources for different parts of the PtX value chain does not constitute overcompensation.*

### **Exemptions for small projects (paragraph 92):**

In paragraph 92, exemption can be made from the requirement to allocate aid and determine the aid level through a competitive bidding process when beneficiaries are small projects, defined as electricity generation or storage projects, electricity consumption, or heat generation and gas production technologies.

*For electricity generation projects we suggest to secure proportionality between the exemption thresholds and the general technological development. Rather than decreasing the threshold from 1 MW to 400 kW, we suggest maintaining or even increasing the capacity limit for electricity generation projects to stimulate continued innovation on a larger scale.*

It is unclear from the wording of the provision whether hydrogen production can benefit under “gas production technologies”.

*We recommend that exemption for small projects is amended to clearly include small projects with hydrogen production.*

**Subsidy per tonne of CO2e emissions avoided (paragraph 98):**

Comparing investments based on their required subsidy per tonne of CO2e emissions avoided constitutes a desirable KPI for securing cost-efficient emission reductions. But a narrow focus on subsidy per tonne of CO2e emission avoided does have a few pitfalls.

There is a lack of common, reliable measuring standard for CO2-abatement from a system perspective. When used as a measure, we stress the importance of estimates being carried out by independent bodies based on latest research. Also, a low subsidy per tonne CO2 emissions avoided could make fuel switch from a carbon intensive to a “low carbon” technology seem favourable, albeit not being in line with the overall 2050 ambition of carbon neutrality. And finally, the KPI could ignore immature technologies, which could later be increasingly efficient or support other objectives such as stabilizing the energy system

CEEAG draft	Danish Energy Association’s suggestion
<p>98. The subsidy per tonne of CO2 equivalent emissions avoided must be estimated for each beneficiary or reference project, and the assumptions and methodology for that calculation provided. To the extent possible, this should seek to identify the net emissions reduction from the activity, taking into account life-cycle emissions created or reduced. To enable a comparison between the costs of different environmental protection measures, the methodology should usually be similar for all measures promoted by a Member State.</p>	<p>98. The subsidy per tonne of CO2 equivalent emissions avoided must be estimated for each beneficiary or reference project, and the latest assumptions and methodology <b>based on the latest research from independent bodies</b>. To the extent possible, this should seek to identify the net emissions reduction from the activity, <b>both up- and downstream</b>, taking into account life-cycle emissions created or reduced. To enable a comparison between the costs of different environmental protection measures, the methodology should usually be similar for all measures promoted by a Member State.</p>

**Displacement of emissions (paragraph 99):**

The wording of paragraph 99 regarding displacement of emissions leaves it unclear whether/how this would apply to carbon capture and utilisation (CCU). Furthermore, it is unclear whether paragraph 99 implies requirements of additionality e.g for production of renewable hydrogen from renewable electricity.

*We believe that CCU from sustainable biogenic carbon, e.g. from sustainably-sourced biomass, does not constitute a displacement of emissions from one sector to another.*

The Commission is currently preparing a delegated act related to Article 27(3) of RED II, and Danish Energy Association has expressed concerns regarding the practical implementation of additionality principle in this delegated act. The draft delegated act applies the same restrictive and burdensome criteria regardless of how large a share of renewable electricity a Member state has. The principle should incentive the rollout of renewable hydrogen rather than create barriers for the development, however, the draft delegated act for Article 27(3) of RED II creates barriers and hampers the development.

*In case paragraph 99 includes requirements regarding additionality, this should be aligned with provisions in the Renewable Energy Directive II (RED II) where it is important find a workable approach to additionality.*

**Emissions directly resulting from that industrial activity (paragraph 100):**

The wording of paragraph 100, where aid for the decarbonisation of industrial activities must reduce the emissions directly resulting from that industrial activity to avoid the risk of double subsidies, it is unclear whether/how this relates to the activities on-site such as onsite production of renewable hydrogen.

*We would welcome a clarification of what ‘directly resulting’ means in the description “aid for the decarbonisation of industrial activities must reduce the emissions directly resulting from that industrial activity”. Furthermore, the guideline should be further developed to clarify the methodologies that Member States can use to make such an assessment, as this would give the energy sector and industrial sectors considering investments in electrification/hydrogen more certainty.*

**Avoiding allocated budget not being realised (paragraph 101):**

There are several risks affecting the feasibility of a carrying out a given project and ultimately leading to projects not being realized. We understand the idea of setting deadlines for project delivery, but also allow for project delays if the can be attributed to factors beyond the management of the beneficiary. Introducing penalties or paid collateral constitutes a risk, which might very well be priced into the subsidy required for project realization, and for this reason we do believe this does not comply with the overall ambition to achieve cost efficient carbon reduction.

CEEAG draft	Danish Energy Association’s suggestion
<p><b>101.</b> To avoid a budget being allocated to projects that are not realised, potentially blocking new market entry, Member States must demonstrate that reasonable measures will be taken to ensure that projects granted aid will actually be developed, for example setting clear deadlines for project delivery, checking project feasibility as part of pre-qualification for receiving aid, requiring collateral to be paid by participants, or monitoring project development and construction</p>	<p><b>101.</b> To avoid a budget being allocated to projects that are not realised, potentially blocking new market entry, Member States must demonstrate that reasonable measures will be taken to ensure that projects granted aid will actually be developed, for example setting clear deadlines for project delivery, checking project feasibility as part of pre-qualification for receiving aid, <b>requiring collateral to be paid by participants</b>, or monitoring project development and construction</p>

**Exposure to market risk (paragraph 102):**

We agree with the principle of beneficiaries should not be receive aid for production in periods in which the market value of the production is negative, and that they should be exposed to manageable risk. Given the unbundling of generation and transmission, we do not consider the risk of insufficient transmission a manageable risk from a generation perspective.

We suggest the following:

CEEAG draft	Danish Energy Association’s suggestion
<p><b>102.</b> Beneficiaries of the measure should be exposed to risks that they can contribute to managing, for example risks associated with the curtailment of renewable energy linked to periods of excess production or to insufficient transmission.</p>	<p><b>102.</b> Beneficiaries of the measure should be exposed to risks that they can contribute to managing, for example risks associated with the curtailment of renewable energy linked to periods of excess production <del>or to insufficient transmission.</del></p>

### **Aid for operational costs (paragraph 103)**

We support the general guidelines on supporting operational expenses should be used only where the Member State clearly demonstrates that this results in more environmentally friendly operating decisions. In the case of electrolysis/hydrogen production 80-90% of costs are operational costs, so it should be stated in the guidelines that aid for renewable hydrogen production qualifies for state aid.

### **Environmental protection objectives (paragraph 107):**

We recognize the need for meeting both climate- and environmental objectives and sympathize with the principle of renewable energy curtailment while generating power on thermal installation. At present we observe RES curtailment both in summer and winter time, but there is still a non-electrified demand for heating which requires the operation of thermal plants. We believe this is the case for Denmark in the foreseeable future.

*We ask the Commission to clarify what concrete initiatives they expect to underline this section. We warn against downgrading biomass use, since sustainable biomass is needed for the green transition to be effective.*

## **4.3 Aid for clean mobility**

In section 4.3 regarding aid for clean mobility there are several references to “zero-emission and clean transport vehicles”. The definition of “clean transport vehicle” allows for some CO<sub>2</sub> emission at least for the mid-term horizon, cf. paragraph 18(20) of the draft CEEAG and the references therein to various directives and regulations.

*With reference to the Union’s long-term climate targets, we recommend placing a stronger emphasis on zero-emission transport for mobility in the air, road, railway, inland waterway and sea and coastal passenger and freight transport. This would involve adding distinctions that clearly state the difference between “zero-emission” and “clean” throughout the guidelines.*

## **4.9 Aid for energy infrastructure**

We support that the proposed guidelines do not enable aid for fossil fuel infrastructure. We believe it is important to distinguish between aid for infrastructures for gas, for hydrogen and for blending of hydrogen into natural gas. Member States must demonstrate how infrastructure for use of blending gas and hydrogen will support renewable energy production and why the project does not create a lock-in effect for the use of natural gas. Member States must be able to demonstrate how the investment contribute to achieving the Union’s 2030 climate target and 2050 climate neutrality target.

## **4.11 Aid in the form of reductions from electricity levies for energy-intensive users**

We support the objective to protect the European industrial sector and avoid carbon leakage. However, the current draft might not provide sufficient incentive for the industrial sector to decarbonise through electrification and the eligibility does not include electrolysis.

The sectors eligible for aid in the form of reductions from electricity levies for energy-intensive users (section 4.11.3.1) is listed in Annex I to the CEEAG. The list in Annex I does not include electrolysis even though many of the listed activities include hydrogen consumption. This poses a risk of ringfencing or fragmenting the electrolysis market, as captive production in sectors listed in Annex I would be able to benefit from reduced levies, where standalone electrolysis would not. *We therefore recommend including electrolysis in the list of eligible sectors in Annex I.*

Energy-intensive users should be encouraged through state aid to invest in energy efficiency and the decarbonisation of production processes, for example via renewables-based electrification. We welcome requirements for beneficiaries to conduct an energy audit (paragraph 364) and take at least one step towards decarbonization (paragraph 365). However, the lack of differentiation between ambitious and less ambitious energy-intensive users could distort competition, and ambitious energy-intensive users might be placed at a competitive disadvantage.

*To avoid this distortion of competition and to promote decarbonisation in the European industrial sector, we recommend that the allocation of aid to energy-intensive users should also consider ambitions for renewables-based electrification, which should be demonstrated with concrete investment plans, and the possibility to grant additional levy exemptions could be received upon such investments being made either directly or indirectly via PPAs.*

Yours sincerely,  
Dansk Energi

Lars Koch