

# EUROHEAT & POWER response to the public consultation on the draft revised climate, energy and environmental aid guidelines

Final – 09 July 2021

---

Euroheat & Power welcomes the possibility to provide comments on the draft climate, energy and environmental Guidelines. These new rules will be key to channel State aid towards the energy sources and solutions we need to implement the Green Deal.

We welcome the approach on district heating under 4.10 that will provide a framework for Member States to decarbonise the heating market. The comments below are based on an exchange with our members and meant to ensure full alignment between the rules and the practical realities on the ground to allow efficient district heating and cooling to grow as well as the modernisation of existing systems in line with the E.U decarbonisation pathway.

## **On 4.10 Aid for district heating or cooling**

The draft rules are confirming the current approach<sup>1</sup> by providing the possibility to member states to grant aid for a/ the development of new efficient DHC, b/ the upgrade of existing DHC and c/ the transition of non-efficient systems towards efficient DHC status.

The confirmation of the funding gap approach extended to heat generation will ensure that the intensity of the aid can be adapted to national/local situations and fit for the purpose of developing sustainable heating solutions.

With a view to addressing the broad scope of policy options to support the transformation of the heat market, the text should clarify that operating aid for renewable heating will be part of the options available to members States to address the competitive gap between sustainable solutions and fossil fuels.

The forthcoming revision of the GBER should support the approach of the Guidelines by extending the scope of aid that can be granted to projects without prior notification when the scheme is already in conformity with the Guidelines (i.e. increased notification threshold values for aid for district heating and cooling systems and inclusion of operating aid for renewable heat).

### **Point 341**

This point should cover DHC, as the section defines the scope for aid for efficient DHC as well as conditions for aid for non-efficient systems.

---

<sup>1</sup> Commission Communication on Sustainable Europe Investment Plan European Green Deal Investment Plan, January 2020

As under current Guidelines, future rules should make clear that aid can target the different pillars of a District Heating system independently. For instance, aid should be available for generation, thermal storage or the network itself.

#### Point 342

The extension to thermal storage will support cross-sector integration, in particular the integration of renewable electricity in systems combining large-scale heat pumps with waste heat and high-efficiency CHP<sup>2</sup>. We suggest adding a reference to the definition of waste heat, as set out in Directive 2018/2001 on renewable energy sources.

Additionally, this point should also refer to ‘customer facilities’ (and section 4.2) so that the connection of a building to a DHC system and the related technical installations within the building that allow the DHC system to perform optimally – and to reduce energy consumption – can be covered.

#### Point 343

The text should clarify that systems should fulfil the status of the efficient DHC definition as set out in Directive 2012/27 on energy efficiency – instead of referring to ‘energy efficiency standard’; the text should also refer to commitments made by the operator and checked by national authorities. As the operator may not own generation assets, a suitable policy framework should be put in place leading to the development of new heat sources aligned with 2030 and climate neutrality goals.

341. This Section applies to support for the construction or upgrade of ~~energy efficient~~ district heating and cooling systems. Supported investments can concern heating or cooling generation ~~and or thermal~~ storage plants or the distribution network or both.

342. Such aid measures typically cover the construction or upgrade of the generation unit to use renewable energy, waste heat, or highly efficient cogeneration ~~or including~~ thermal storage solutions, *power-to-heat solutions* or the upgrade ~~or extension~~ of the distribution network to reduce losses and increase efficiency, including through smart and digital solutions. *Heating and cooling equipment within customer premises referred to under point 117 can also be covered.*

343. Where a Member State ~~invests grants~~ aid for ~~in~~ the upgrade of a district heating and cooling system *which does not fulfill the definition of efficient DHC, as defined in Directive 2012/27 on energy efficiency without meeting the standard of energy efficiency*, it needs ~~to require the~~ *commitment of the operator* to start the works to reach that ~~status standard~~ within three years following the upgrade works *where appropriate.*

#### Point 344

We agree with the reference to waste to energy and the conditioning of the aid for such projects on the respect of the waste hierarchy.

When mentioning waste heat the text should refer to the definition of waste heat as set out in Directive 2018/2001 on renewable energy sources.

344. Sections 3.2.1.1. and 3.2.1.2. do not apply to aid to district heating or cooling. The Commission considers that State aid can contribute to addressing market failures by triggering the investment needed

<sup>2</sup> ‘The new State aid framework should uphold the opportunity to support high-efficient heat generation and CHP systems that have a positive impact in terms of CO<sub>2</sub> reductions in the field of generating district heat, also from renewable sources. Additionally, the State aid framework should also support combinations of such heat generation through renewable electricity using heat pumps, waste heat and power to heat installations.’ (Joint statement on ‘A State Aid Framework fit for the Green Deal’ dated 31 May 2012 signed by Germany, Sweden, The Netherlands, Latvia, Ireland and Luxembourg)

for the creation **expansion and upgrade** of ~~energy~~-efficient district heating and cooling systems as well as investment into non-efficient systems with a view to gradually make them efficient. In addition, State aid for ~~energy~~-efficient district heating and cooling systems using waste, ~~including waste heat~~, as input fuel can make a positive contribution to environmental protection, provided that they do not circumvent the waste hierarchy principle<sup>115</sup>.

#### Point 347

Throughout Europe District heating operators are in the process of phasing out most polluting fuels where they are still being used and modernizing systems in line with national decisions to phase out these fuels. These fuels referred to under this point will also gradually drop out of the fuel mix as a result of the increasing price for CO2 allowances.

The changes we suggest are meant to provide a clarification for national authorities that the operator can be supported in upgrading and expanding a network, even in cases where this could lead to a temporary and short term increase of production based on the most polluting fuels (i.e. to cover potential technical sequences before new fuels are being phased in) provided such developments are part of and consistent with the overall decarbonisation commitment of the operator and related investment plans are in line with the 2030 climate target and the 2050 climate-neutrality objective.

347. Section 3.2.2. does not apply to aid for district heating or cooling. The Commission considers that the upgrade or construction of district heating and cooling systems which rely on the most polluting fossil fuels such as coal, lignite, oil and diesel, have negative consequences on competition and trade which are unlikely to be offset unless the following cumulative conditions are fulfilled:

- a/ the support is limited to **the upgrade of** distribution network;
- b/ the distribution network is or becomes fit for the transport of heat or cooling generated from renewable energy sources, **waste heat or other climate-neutral sources**;
- c/ the investment does not result in increased generation of energy from the most polluting fossil fuels (for example, by connecting additional customers). **Any temporary increase in generation from the most polluting fuels must be part of and consistent with the overall decarbonisation commitment of the operator and related investment plan in line with the 2030 climate target and the 2050 climate-neutrality objective as referred to in (d)**;
- d/there is a clear timeline involving firm commitments **from the beneficiary of the aid where appropriate** for transitioning away from the most polluting fossil fuels, compatible with the Union's 2030 climate target and the 2050 climate neutrality target.

#### Point 348

As the operator cannot commit as to whether/to what extent climate-neutral fuels will be available<sup>3</sup>, the commitment of the operator should rather be demonstrated by investments into climate-neutral ready facilities. We prefer to refer to a wider category of 'climate-neutral fuels' – e.g. CH<sub>4</sub>, methanol and H<sub>2</sub>.

These investments should take place in a renewed framework to facilitate the deployment of the energy sources needed to feed relevant installations with relevant climate-neutral fuels. The same changes should apply to point 110.

348. As regards the construction or upgrade of district heating generation installations, measures that incentivise new investments in energy based on natural gas may reduce greenhouse gas emissions in the short run but aggravate negative environmental externalities in the longer run, compared to alternative investments. For those investments in natural gas to be seen as having positive environmental effects, Member States must explain how they will ensure that the investment contributes to achieving the

<sup>3</sup> 'We encourage the Commission to consider making investments into 'H2' readiness of new installations eligible for additional support as this avoids sunk costs.' (Joint statement of Member States above-mentioned page 1)

Union's 2030 climate target and 2050 climate neutrality target and, in particular, how a lock-in of the gas-fired energy generation or gas-fired production equipment will be avoided. For example, this may include binding commitments by/from the beneficiary to implement CCS/CCU or substitute natural gas **by investing in facilities ready to use climate-neutral fuels when they are available** ~~by renewable or low carbon gas~~ or to close the plant on a timeline consistent with the Union's climate targets.

110. Similarly, measures that incentivise new investments in energy or industrial production based on natural gas may reduce greenhouse gas emissions and other pollutants in the short term but aggravate negative environmental externalities in the longer term, compared to alternative investments. For investments in natural gas to be seen as having positive environmental effects, Member States must explain how they will ensure that the investment contributes to achieving the Union's 2030 climate target and 2050 climate neutrality target. In particular, the Member States should explain how a lock in of this gas-fired energy generation or gas-fired production equipment will be avoided. For example, this may include binding commitments by the beneficiary to implement decarbonisation technologies such as CCS/CCU or substitute natural gas **by investing in facilities ready to use climate-neutral fuels when they are available** ~~by renewable or low carbon gas~~ or to close the plant on a timeline consistent with the Union's climate targets<sup>64</sup>.

#### Point 349

The case-by-case assessment of the balancing of the aid on local market may lead to uncertainty and in particular discourage national authorities from granting aid for large-scale projects. We suggest that aid for DHC systems is considered compatible when it is framed in an overall national/regional strategy to decarbonize the heating and cooling market and when the system - beneficiary of the aid - fulfils the definition of efficient DHC.

Combined with a renewed approach under GBER, such an approach would have the benefit of speeding up approval processes – and would remain in line with the general positive approach on aid for DHC throughout the draft - while ensuring full coherence with EU and national objectives.

349. In analysing the impact of State aid for district heating and cooling systems on competition and in balancing it against the supported economic activity, the Commission will carry out a case-by-case assessment balancing the benefits of the project in terms of energy efficiency and sustainability against the negative effects on competition and in particular the possible negative impact on alternative technologies or providers of heating and cooling services and networks, **taking into account regional/national strategies for the decarbonization of heating and cooling (comprehensive assessments under Directive on energy efficiency 2012/27). Where the district heating system fulfils the definition of Efficient DHC according to Directive 2012/27 the Commission will typically assume that negative effects on competition are outweighed by positive environmental effects.**

#### On 4.1 Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy

Euroheat & Power welcomes the intention to simplify current rules and allow faster procedure for operators to obtain aid (by the deletion for instance of individual notification of aid for large projects).

We also believe it is important that future rules leave at Member State discretion the possibility to deviate from the default approach<sup>4</sup>, including from the format of competitive bidding process, by developing dedicated schemes for specific options such as high efficiency Combined Heat and Power.

---

<sup>4</sup> As we underlined in our response to a previous consultation, the format of competitive bidding process is not adapted for high efficiency CHP installations which supply two products simultaneously. This issue is documented in the case law - SA 42393 'Reform of support for cogeneration in Germany', 2016.

#### On 4.2 Aid for the improvements of the energy and environmental performance of buildings

This section should build stronger links with section 4.10 to ensure a level-playing field between on-site and nearby solutions (please see above for suggestion for changes under point 342). In particular, the connection to an efficient DHC should be covered, as well as the technical equipment including digital solutions within a building that will allow to ensure the most efficient use of the DHC system.

We welcome the clear provisions (points 134 and 135) to avoid the lock-in associated with the promotion of the direct use of fossil fuels contradicting the Green Deal objective.

The approach of the draft (point 119) discriminates between large undertakings and SMEs. The same aid intensities should apply to all undertakings with a view to attracting also large companies with a track record in the field of refurbishment and operation of energy-efficient buildings.

#### On Bio-energies

This point 107 establishes a comparison between fossil fuels and biomass when the use of local sustainable biomass is playing a key role in the decarbonisation of the heat market in many countries.

With this draft wording, the Guidelines could discourage member states from promoting sustainable biomass in the most efficient applications such as district heating via the means of either investment or operating aid.

The promotion of bioenergy should systematically refer to the sustainability and greenhouse gases emissions saving criteria, as referred to under point 76.

Whereas this point has merits to deal with electricity, which is difficult to store and is traded on the internal EU market, in the case of heating where storage is possible, other points need to be considered such as security of supply as these systems are typically small and not interconnected. For electricity, future Guidelines should refer to Regulation 2019/943 on the internal market for electricity which sets out clear rules for dispatching of power-generating facilities in its article 12.

107. To avoid undermining the objective of the measure or other Union environmental protection objectives, incentives must not be provided for the generation of **electricity energy** that would displace less polluting forms of **electricity generation energy**. For example, where cogeneration based on non-renewable sources is supported, ~~or where biomass is supported~~, they must not receive incentives to generate electricity ~~or heat~~ at times when this would mean zero air pollution renewable energy sources would be curtailed.

Point 77 is limiting the use of crop-based biofuels, bioliquids and biomass fuels to the caps defining their eligibility for the calculation of the gross final consumption of energy from renewable sources used in transport in article 26 of Directive 2018/2001. We consider that the mentioned crop-based biofuels must be eligible for support such as tax exemption when used for heating purposes without any new limitations on top of the sustainability and greenhouse gases emissions saving criteria set out in the same Directive.

#### Under definitions

(28) 'district heating' or 'district cooling' means district heating or district cooling, as defined in Article 2, point (19), of Directive (EU) ~~2018/2001~~ **2010/31**;

(29) 'district heating and cooling systems', consisting of heat generation facilities (heating/cooling production plants **including combined heat and power plants**), the heating/cooling **thermal** storage and

distribution network (both 'primary'- or transmission- and 'secondary' network of pipelines to supply heat to consumers). Reference to district heating is to be interpreted as district heating and/or cooling systems, depending on whether the networks supply heat or cooling jointly or separately;

After (62) new *'waste heat and cold'* means *waste heat and cold as defined in article 2 (9) of Directive 2018/2001*;