

PGE Polska Grupa Energetyczna S.A. position on
Draft Guidelines on State aid for climate, environmental
protection and energy 2022

Key messages and general remarks

- The new Guidelines on State aid for climate, environmental protection and energy (“CEEAG”) should take greater account of the role of natural gas as a transition fuel to a low-carbon economy, creating the conditions for the development of hydrogen and renewable gas infrastructure, necessary for the implementation of a zero-carbon economy in 2050.
- It is necessary to take into account both the different weather conditions of the Member States and the diversified structure of electricity generation. In the case of countries that still depend on coal and do not have nuclear energy the need to ensure sufficient generation capacity should be taken into account. In the case of countries moving away from coal and facing generation stability problems, increasing non-pricing criteria above 25% level would be very helpful.
- Linking the State aid framework with the EU taxonomy regulation has to be avoided. The taxonomy-related criteria were originally created only for the reporting duties as the guideline for the private investment sector. The State aid should allow to support activities, which cannot rely on the sufficient financing from other sources. Therefore, the taxonomy framework should not be treated as the “golden standard” for the CEEAG. Otherwise, the State aid may be limited only to those activities, which may already be financed through commercial financing market.
- The Commission should pay attention to an important role that district heating in Poland plays in preventing air pollution. Excluding the possibility of granting State aid for the expansion of networks sourced by coal-fired units not only will not reduce the total greenhouse gas emissions, but will also slow down the progressive processes of improving air polluted with PM 2.5 and PM 10 particles and benzo(a)pyrene.
- The requirement that aid for the closure of coal-fired power plants may be granted only to entities making a profit from their activity means that under the present conditions determined by the rising CO2 prices these provisions may remain inapplicable.
- In some categories of aid, such as those relating to energy infrastructure or security of supply, the permissible aid intensity was not indicated. Therefore, it may cause some difficulties whether the intensity in these cases should be interpreted as 100%. To avoid any uncertainties we propose, following the example of the Guidelines on State aid for environmental protection and energy 2014-2020 (“EEAG”), to introduce an annex containing a table summarizing the intensity of aid for its individual purposes.
- Requirement to amend, where necessary, existing environmental protection and energy aid schemes in order to bring them into line with new guidelines no later than 31 December 2023 is too strict and it should be deferred until at least 2024. It would be reasonable to continue the approach set out in point 247 of the EEAG that individual aid granted before the entry into

force of these guidelines under approved aid schemes and notified to the Commission pursuant to the obligation to notify such aid individually, will be assessed on the basis of the guidelines applicable to an approved aid scheme on the basis of which the individual aid was granted.

Content

Key messages and general remarks	1
Section 2 – Scope and definitions	2
Section 3 – Compatibility Assessment.....	3
Section 4.1. Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy	6
Section 4.2 Aid for the improvement of the energy and environmental performance of buildings	7
Section 4.4. Aid for resource efficiency and for supporting the transition towards a circular economy	7
Section 4.8. Aid for the security of electricity supply.....	8
Section 4.9. Aid for energy infrastructure.....	9
Section 4.10. Aid for district heating or cooling	9
Section 4.12. Aid for coal, peat and oil shale closure.....	12
Section 4.13. Aid for studies or consultancy services on environmental protection and energy matters	14

Section 2 – Scope and definitions

Paragraph 18: Definitions

Definition of energy infrastructure (point 35).

Storage

We propose to extend the definition of energy infrastructure in the field of electricity by an additional type: electricity storage facilities providing balancing services and for the management of transmission congestion.

In the case of this type of projects, beneficiaries could be entities other than DSOs. The increase in the number of RES installations in the power system causes various types of problems in the network operation. The solution to these problems may be energy storage, which, in our opinion, should be supported regardless of the nature of its operator.

Offshore energy infrastructure

The definition of offshore energy infrastructure in the draft CEEAG refers only to infrastructure with a dual role (interconnector). This raises doubts as to whether it will be possible to obtain aid for transmission or distribution of offshore renewable electricity from the offshore generation site in the case of grids that do not meet this criterion, which is the case in projects, which are radially connected to the national power system. This may inhibit the development of offshore investments.

Text proposal	PGE amendment
<p>'energy infrastructure' means any physical equipment or facility which is located within the Union or linking the Union to one or more third countries and falling under the following categories:</p> <p>(a) concerning electricity:</p> <p>(v) 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>energy infrastructure' means any physical equipment or facility which is located within the Union or linking the Union to one or more third countries and falling under the following categories:</p> <p>(a) concerning electricity:</p> <p>(v) 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>(vi) electricity storage facilities providing balancing services and for the management of transmission congestion</p>

Section 3 – Compatibility Assessment

Paragraph 49: Selection criteria in the competitive bidding process

PGE appreciates the possibility of including non-price selection criteria. However, in the case of countries moving away from coal and facing generation stability problems, increasing this level above 25% would be very helpful.

According to some funding programmes under the current Operational Programme Infrastructure and Environment (2014-2020) the share of the non-price selection criteria may reach the level up to 65%. Non-price selection criteria are very important for programmes dedicated to facilitate the development of the generation of energy from renewables (ca. 46%), energy efficiency (ca. 60%), smart grids demonstration projects (ca. 65%), heating and cooling networks for highly efficient CHP plants (ca. 37,5%), smart storage and distribution of energy (ca. 50%).

A very high share of criteria related to the amount of aid may result in lower quality and innovation of the implemented solutions. Moreover, the degree of investment preparation, which should also be reflected in the criteria, is very important in the distribution of aid. Member States should be allowed

to take into account the specific features of the investment being implemented (location, **generation stability**, time from the start of the investment to its readiness, development of innovative technologies with great potential for the future).

In the case of countries replacing coal with environmentally friendly energy sources, the issues of location and stability of production are essential, especially in the context of additional requirements imposed on investments in low-emission fuels.

A competitive procedure aimed at selecting energy sources to which public aid will be granted cannot be based exclusively or almost exclusively on the price criterion. Unstable, weather-dependent sources will always be able to offer the lowest price in the auction. This forces an increase in the role of capacity mechanisms. The costs of these mechanisms will ultimately be borne by the energy consumer. Instead of creating a flawed system and a cure for it, it is better to create solutions tailored to the needs of energy and consumers from the very beginning.

Provisions concerning aid in low emission sources (paragraphs 65, 67, 71, 108, 110, 304, 318, 326, 339c. 348)

Investing in natural gas will require broader justification and a binding commitment to extinguish the source by 2050, implement decarbonisation technologies or substitute natural gas by renewable or low-carbon gas. Maintaining the possibility of implementing low-emission investments is necessary for countries withdrawing from coal, which have not yet built up a sufficiently large generation capacity in stable sources, such as natural gas or nuclear energy. Gas is a key transitional fuel, especially in the district heating sector and this perspective should be also reflected in the new State aid framework.

In addition, the important role that low-emission gas fuels play in the development of zero-emission gas fuel infrastructure, such as green hydrogen, must not be forgotten. In the future, zero-emission fuels are to play a key role in both heavy industry (metallurgy, chemical industry) and automotive. The creation of favourable conditions for the development of gas infrastructure will allow the gradual development of hydrogen technology and will help to prevent necessity of introducing new obligations for Member States in the future to build such infrastructure specifically for hydrogen-based investments.

When designing solutions to avoid the lock-in effect during the implementation of investments connected to the natural gas network, it is worth bearing in mind that investors have limited influence on the availability of the renewable gases in the network. All already built generation units are adjusted to be hydrogen-ready, therefore the development of the district-heating networks creates market and infrastructure for the fully decarbonised heating systems, only when renewable gases will be commercially available.

Natural gas allows for the simultaneous fulfilment of several key goals:

- (i) it reduces at least by 2/3 the level of emissions in relation to coal sources,
- (ii) it provides reasonable investment costs and costs for energy consumers,
- (iii) it ensures the stability of generation and thus eliminates the risk of interruptions in energy supplies to consumers as the generation is independent of the weather,
- (iv) it allows to meet the reduction targets for 2030,
- (v) it prepares the infrastructure for the development of hydrogen.

Text proposal	PGE amendment
65. State aid for environmental and energy objectives may have the unintended effect of	65. State aid for environmental and energy objectives may have the unintended effect of

<p>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>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>In case of Member States with dominant high emission energy sources, which cannot be replaced until 2030 with zero-emission generation (e.g. in the large-scale district-heating systems), the Commission will take into account short term positive effects in terms of the total emissions reduction, provided that the newly built capacity will be adapted to be fueled by zero-emission gases.</p>
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Paragraph 69: Taxonomy

CEEAG refer to the taxonomy and the “do not significant harm” principle. This appeal concerns the final stage of the Commission’s assessment, weighing the positive and negative effects of the aid. In our opinion, it requires clarification what the Commission means when writing about “pay particular attention”. We would like to point out that the question of compliance with sustainability criteria will be decided in the forthcoming additional delegated act, therefore any reference to the Taxonomy Regulation should be made in a way, which does not cause legal uncertainty for the potential State-aid beneficiaries.

The taxonomy-related criteria were originally created only for the reporting duties as the guideline for the private investment sector. The State aid should allow to support activities, which cannot rely on the sufficient financing from other sources. Therefore, the taxonomy framework should not be treated as the “golden standard” for the CEEAG. Otherwise, the State aid may be limited only to those activities, which may already be financed through commercial financing market.

Text proposal	PGE amendment
<p>69. In that balancing exercise, the Commission will pay particular attention to Article 3 of Regulation (EU) 2020/852 of the European Parliament and of the Council, including the ‘do no significant harm’ principle, or other comparable methodologies. Furthermore, as part of the assessment of the negative effects on competition and trade, the Commission may take into account, where relevant, negative externalities of the aided activity where such externalities adversely affect competition and trade between Member States to an extent contrary to the common interest by creating or aggravating market inefficiencies including in particular those externalities that may hinder the achievement of climate objectives set under EU law</p>	<p>69. In that balancing exercise, the Commission will pay particular attention to Article 3 of Regulation (EU) 2020/852 of the European Parliament and of the Council, including the ‘do no significant harm’ principle, or other comparable methodologies. Furthermore, as part of the assessment of the negative effects on competition and trade, the Commission may take into account, where relevant, negative externalities of the aided activity where such externalities adversely affect competition and trade between Member States to an extent contrary to the common interest by creating or aggravating market inefficiencies including in particular those externalities that may hinder the achievement of climate objectives set under EU law. This does not apply when a weather-independent high-emission source, necessary to ensure the stability of the power system, is replaced by a low-emission energy source, necessary to ensure the stability of the power system, provided that the newly built capacity will be adapted to be fueled by zero-emission gases.</p>

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

Paragraph 85: Public consultation

CEEAG require that, inter alia, estimated amount of support in terms of GHG emissions will be submitted to public consultation. It is not clear whether the amount of emissions avoided already at the operational stage of the supported project or another indicator should be subject to consultations or it is for Member State to decide.

Paragraphs 89, 90: Competitive procedure.

According to the CEEAG, aid for GHG emission reduction provides for the initial obligation to grant aid in a competitive form, with the participation of all sectors, and a derogation from such a wide targeting of aid instruments is possible only in justified cases. This may limit the freedom to design State aid mechanisms to best address the needs of particular Member State as well as to extend the current instruments. Member States should be given license to support different sectors in different sector-dedicated manners and the all-sectors competitions should be of voluntary character.

Section 4.2 Aid for the improvement of the energy and environmental performance of buildings

Paragraph 122: Incentive effect in case of adaptation to Union standards adopted but not yet in force

We propose that aid for adapting to EU standards that have been adopted but are not yet in force should have an incentive effect if the investment is carried out and completed at least 12 months before the EU standards come into force, and not 18 months as currently proposed. Our experience shows that early adaptation to the standards is associated with a significant increase in operating costs, which may discourage the use of this type of support. The same approach applies to paragraph 231 of the guidelines.

Text proposal	PGE amendment
122. Aid for covering the costs of adapting to Union standards that are adopted but not yet entered in force will be considered to have an incentive effect if the investment is implemented and finalized at least 18 months before the Union standards enter into force.	122. Aid for covering the costs of adapting to Union standards that are adopted but not yet entered in force will be considered to have an incentive effect if the investment is implemented and finalized at least 12 months before the Union standards enter into force.

Section 4.4. Aid for resource efficiency and for supporting the transition towards a circular economy

Paragraph 204: Circular economy

As part of resource efficiency aid and to promote the transition to a circular economy, **the supported investment must not correspond to an economically viable practice**. Accordingly, a process or processes by which waste or other products, materials or substances are prepared for re-use or recycling, or recycled, **may not fit with an economically viable practice or established commercial practice**.

In our opinion, there are no contraindications for granting aid as part of an economically profitable practice in the event that such aid leads to positive environmental effects. Criteria to determine whether a practice is economically viable have not been defined and this area may pose many interpretative doubts, e.g. in the area of determining the relevant market for profitability assessment. If they were to be maintained, they would have to be made more detailed.

Text proposal	PGE amendment
204. The aided investment must not correspond to an economically profitable practice. Therefore, the process or processes by which waste or other products, materials or substances are prepared for re-use or recycling or are recycled must not correspond to economically profitable or established commercial practice. Where appropriate, this must be verified from the perspective of practices generally applied throughout the Union and across technologies.	204. The aided investment must not correspond to an economically profitable practice. Therefore, the process or processes by which waste or other products, materials or substances are prepared for re-use or recycling or are recycled must not correspond to economically profitable or established commercial practice. Where appropriate, this must be verified from the perspective of practices generally applied throughout the Union and across technologies.

Section 4.8. Aid for the security of electricity supply

Paragraph 295: Capacity mechanism

CEEAG clearly indicates the possibility of using several capacity mechanisms in parallel. This is a very positive development that will facilitate the management of constraints related to the increasing share of weather-dependent sources.

Paragraph 303, 325: Security of Supply

Measures for security of supply must respect emissions threshold applicable to capacity mechanisms in the Article 22 of Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity.

According to the data of the Energy Market Agency, the installed capacity of coal-fired power plants in Poland at the end of 2020 was 34.2 GW of electricity, with over 50 GW of installed capacity in the entire power system. This means that the share of coal capacity in the Polish electricity mix is currently 67%.

The transmission capacity of cross-border connections towards import is currently around 2.5 GW and is being gradually developed, however, by 2025 it is not possible to achieve such a level of transmission capacity that would enable meeting the needs of energy consumers in Poland. For this reason, it is necessary to enable the operation of coal power plants until the capacity installed in low-emission sources is built and the power of interconnectors is increased.

In the information from June 7 this year The President of the Energy Regulatory Office informed that in the perspective of the next thirteen years the production potential of available capacity in the national power system may decline. A study prepared by the regulator shows that energy companies plan to commission a total of over 14.2 GW of new generation capacity by 2034, most of which will come from offshore technology (4.8 GW, i.e. 34% of all new generation capacities), natural gas (4.4 GW, i.e. almost 31% of new capacity) and photovoltaics (2.8 GW, 19% of new capacity). At the same time, in the same period, producers plan to decommission units with a total capacity of 18.8 GW, based mainly on hard coal (12.8 MW) and lignite (5.3 MW).

The analysis of the Energy Regulatory Office shows that in 2034 the production potential of the surveyed entities will be lower by approx. 11% (4.6 GW) compared to 2020. Electricity producers plan to increase the share of intermittent sources while reducing the power of stable and highly available sources. This means that, taking into account the correction factor of availability, **the reduction of available capacity in the energy system may amount to as much as 31% (10.6 GW).**

This situation is a result of the declining profitability of high-emission sources, but at the same time poses a threat to the operation of the electricity system in Poland. We point out to the need to propose solutions that will ensure security of energy supply, especially in a view of emission limits for capacity mechanisms, introduced from July 1, 2025.

Paragraph 312: Exemptions from competitive bidding process

In the case of Security of Supply aid, the only circumstance justifying not using a tender is the lack of sufficient supply of projects. It is worth considering the possibility of using other criteria, e.g. network (geographic) considerations.

Text proposal	PGE amendment
312. Exceptions from the requirement to allocate aid and determine the aid level through a competitive bidding process can only be justified where evidence is provided, including any evidence gathered in the public consultation, demonstrating that there is likely to be insufficient potential participation in such a bidding process to ensure competition.	312. Exceptions from the requirement to allocate aid and determine the aid level through a competitive bidding process can only be justified where evidence is provided, including any evidence gathered in the public consultation, demonstrating that: a) there is likely to be insufficient potential participation in such a bidding process to ensure competition, b) it is necessary to ensure the security of energy supply in a specific geographic area (e.g. due to constraints in the transmission network)

Section 4.9. Aid for energy infrastructure

The proposed aid guidelines are intended to accelerate the development of energy generation from renewable energy sources. The instability of energy generation from these sources, however, results in numerous challenges for power system operators. The Commission should pay particular attention to the challenges posed by the need to integrate energy from renewable energy sources in the distribution and transmission system.

Paragraph 333: Natural monopoly

We welcome the Commission's approach treating power networks as a natural monopoly (under the conditions set out in the guidelines), for which competition cannot be infringed, therefore they should not be subject to the rules for assessing state aid.

At the same time, it seems that it is worth explaining in the guidelines whether aid for the construction of energy storage facilities, which are a fully integrated component of the network, in accordance with the definition contained in Art. 2 point 51 of the Electricity Market Directive will be assessed in the context of its compatibility with the common market.

Paragraph 338: Claw-back mechanism

The Commission proposes that claw-back mechanisms are necessary when there is a significant risk of windfall profits, for example when the aid is close to the maximum allowable amount, while maintaining incentives for beneficiaries to minimize costs and develop their activities more efficiently over time. It should be clarified how to interpret the provision that "the aid is close to the maximum allowed" amount.

Section 4.10. Aid for district heating or cooling

Natural monopoly

According to paragraph 333 there is no State aid involved in investments where the energy infrastructure is run under a 'natural monopoly'. Due to the very similar legal situation and the same method of financing, excluding the possibility of violating competition, we believe that this principle should also apply to heating networks.

Text proposal	PGE amendment (new text)
[-]	<p>The Commission considers that there is no State aid involved in investments where the district heating and cooling network is run under a 'natural monopoly', which is deemed to exist where the following cumulative conditions are met:</p> <p>(a) network faces no direct competition, which is the case where it cannot be economically replicated and hence where no other operators are involved;</p> <p>(b) alternative financing in the district heating and cooling network, in addition to the network financing, is insignificant in the sector and Member State concerned;</p> <p>(c) the heating and cooling network is not designed to selectively favour a specific undertaking or sector but provides benefits for society at large.</p>

Paragraph 341: Energy efficient district heating and cooling system

The definition of the effective heating system is a part of the revision of the Energy Efficiency Directive, therefore the proposed obligation creates uncertainty for the potential State-aid beneficiaries.

Pursuant to the proposal contained in the draft of the amended EED directive, meeting the definition of an efficient heating system will require achieving the so-called milestones and phasing out of fossil fuels. From 2035, it will be necessary to introduce a renewable heat source into the heating system. Linking the possibility of granting State aid with meeting the criteria of an efficient heating system will result in an increase in operating costs, as the existing source will become oversized and it will not function in an economically efficient manner. Additional expenses incurred for the development of the second heat source and the simultaneous operation of both sources will have to be passed on to the consumers.

Therefore, we point out that the final impact of this provision of the CEEAG depends on the final results of the EED revision. In our opinion the district heating systems, which already satisfy the criteria for being classified energy efficient, for the State aid reasons, should not be deprived of this status in the future. The final result of the EED revision depends on the political negotiations and right now remains uncertain.

Paragraph 343: Heating network. Obtaining standard of energy efficiency

As regard to point 343 of the CEEAG it is necessary to clarify, whether the three-year period refers to start of the works to reach that standard of energy efficiency or it means that the standard of an effective district heating has to be achieved within three years following the upgrade works. Moreover, we consider it necessary to explicitly confirm that the obligatory period to start of the works to meet the standard of energy efficiency starts running from the moment of conclusion of the aided project.

It should also be borne in mind that the definition of an energy-efficient district heating system is directly related to the source supplying district heating networks. Investment in building new heat source or retrofitting existing one are time consuming. Moreover, the identity of the owner of the grid and of the owner of the generation source is not always the same, and the grid owner may have no influence on the heat source owner's business plans.

Bearing in mind the above-mentioned, we find it reasonable to understand point 343 as an obligation to start works within 3 years following the upgrade of the network. Such an approach finds confirmation in point 66 of the Guiding template: District heating/cooling generation and distribution infrastructure concerning RRF.

If however it should be understood that the three-year period refers to reaching the standard of energy efficiency, we propose to set a 5-year deadline for meeting the efficiency standard.

Paragraph 347: Heating networks development.

CEEAG significantly reduce the possibility of building and expanding district heating networks for CHP coal sources. This implies the need to invest in a fuel change parallel to the network investment. This is, in our opinion, unjustified and hinders the development of the network in order to use them in the future with zero and low-emission sources.

Taking into account that the currently dominant number of effective heating systems (according to the current EED-based definition), mainly in the largest agglomerations, meets the efficiency condition by operating coal-fired units, the introduction of the proposed provisions will unjustifiably limit the group of potential beneficiaries. This will also apply to entities planning the necessary expansion of the systems (connection of new customers) and modernization of the network (reduction of losses on the transmission network). It will also have a negative impact on air quality in cities, as the expansion of heating systems, including the implementation of new connections, are of key importance for the elimination of low emission sources. The proposed mechanism will lead to failure of many projects aimed at the modernization of heating systems, leading to the progressive degradation of the operated infrastructure, which will have environmental and economic consequences.

As the guidelines define the boundary conditions for providing support in the coming years, it is not possible to make such a rapid transformation of the entire heat generation sector. On the other hand, ignoring this requirement will have far-reaching negative consequences for both heating companies and consumers.

In our opinion, the need to achieve the standard of an effective heating system is a sufficient limitation in access to public funds for the modernization of district heating systems, and the introduction of additional requirements may only block the development and have a negative impact on its ongoing repairs.

Referring to point a), it should be noted that eliminating the possibility of network expansion will have negative environmental effects. It should be borne in mind that the development of heating networks (even those based on coal sources) **contributes to the elimination of coal-fired boilers in single-family households and thus reduces the total amount of greenhouse gases emitted to the atmosphere.**

In our opinion, point c) is unjustified because even if the connection of new recipients increases the source's emissions, it also reduces the total emissions, because individual generation sources based on coal emit much more pollutants to the environment than single source supplying heating networks.

Therefore, we propose deleting the requirements contained in point 347 of the Guidelines or relaxing the applicable provisions so that it would be possible to unconditionally grant support for the

modernization of the network also for systems with a coal-based generation structure, instead of applying the four mentioned conditions jointly.

It should be emphasized that our proposal does not lead to support for a heat source based on coal and would not lead to an increase in emissions. Provided appropriate conditions for carrying out investments, which would be specified in the aid measure (additional insulation of heating network, elimination of coal furnaces), the total greenhouse gas emissions would not only not increase, but could even decrease, which is allowed by the economies of scale and high efficiency of the generating source, which is not the case in the case of individual household heating.

In addition, the development of heating networks in the context of upcoming changes in the heating sector will allow for a rapid reduction in total emissions after the source supplying the network is switched to low-emission or zero-emission, which would not be possible if each of the recipients had to replace the heat source in use.

Section 4.12. Aid for coal, peat and oil shale closure

Paragraph 370, 371: Profitability

The design of early closure aid excludes the possibility of its use with the current price of allowances. The current wording of this part of the guidelines raises serious doubts as to whether any EU Member State will be able to grant aid for the closure of coal-fired power plants and mines, even though it seems to be one of the priorities of the Commission. The only aid available will be an aid to cover the additional environmental and social costs resulting from the closure.

We propose considering the possibility of granting State aid for the closure of unprofitable power plants and mines, if it is proven that the avoided costs will be allocated to investments eligible under the new CEEAG.

An alternative solution could be that the Commission removes the profitability requirement and sets out in the guidelines criteria which, if met, will not call into question the competitiveness of the tendering procedure and the appropriateness of granting aid for the closure of coal installations. **In the competitive procedure the Commission should assume the presumption of proportionality of the aid.**

The verification of compliance with the profitability criterion faces many obstacles as fulfilment of it depends on the temporary market conditions, including in particular fuel prices and quotations of CO₂ emission allowances, and as a result may change during the notification process of the aid measure. There are also significant differences in the operating costs of individual power plants, depending on the technology used and the age of the installation. At a time when some plants are on the verge of profitability, others may still generate income from electricity generation. These differences should be considered in the guidelines, so as to leave to eligible entrants the opportunity to benefit from the aid.

It should also be remembered that the mere fact of not making a profit does not always constitute grounds for withdrawing a power plant from the market as it is not an activity based on a short-term economic calculation. Coal-based plants can be kept on the market for a variety of reasons. These include an important role in ensuring electricity independent of weather conditions and also due to social issues, which is important in the case of lignite plants and mines. The result is that the incentive effect is fulfilled for such installations.

Text proposal	PGE amendment
370. However, Member States may decide to accelerate this market driven transition by	370. However, Member States may decide to accelerate this market driven transition by

<p>prohibiting the generation of power based on these fuels as of a certain date. This prohibition can create situations in which profitable coal, peat and oil shale activities have to close before the end of their economic lifetime and can hence result in foregone profit.</p> <p>371. This Section sets out compatibility rules for measures taken to compensate for the early closure of profitable coal, peat and oil shale activities.</p>	<p>prohibiting the generation of power based on these fuels as of a certain date. This prohibition can create situations in which profitable coal, peat and oil shale activities have to close before the end of their economic lifetime and can hence result in foregone profit.</p> <p>371. This Section sets out compatibility rules for measures taken to compensate for the early closure of profitable coal, peat and oil shale activities.</p>
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Timeline

It is too strict to close all units within one year after the support is granted. The Commission should recognize that the processes of decommissioning mines and coal-fired power plants are complex and that it takes years to implement all measures and decommissioning work. Therefore the proposed one-year deadline for plant closure after receiving compensation is unrealistic. The timetable should be significantly extended to take into account the time frames needed to negotiate, develop and implement appropriate closure programs and new activities that will foster a just transition and a gradual exit from coal. The Commission should also take into account that Member States are in the process of adopting Just Territorial Transition Plans, which will include just transition actions and programs to counterbalance the socio-economic challenges of the transition process. Such plans will last much longer than a year. When Member States decide to close a coal mine or a coal-fired power plant, CEEAG should enable them to identify the financial burden on businesses and regions and to compensate them appropriately in a sufficiently long time and within the time frames set for each case.

Paragraph 378: Cancelling of allowances

It is unreasonable to request Member States to cancel the EU ETS allowances corresponding to the emissions avoided from the closed plant in the case of Member States with less allowances than their actual carbon dioxide emissions. The cancellation of allowances will result in a disproportionate reduction of allowances for the remaining installations on the market.

In our opinion the ETS and its Market Stability Reserve ensure an effective mechanism to avoid any oversupply problem. Therefore, there is no need in the CEEAG to introduce additional measures, which are doubling the functions of the MSR itself.

Moreover, the low-income countries will not have sufficient revenues in their national budgets to finance the energy sector and industry transition, as they cannot simply transfer those costs on end-users. This is why, along with the new 55% emissions reduction target, the European Council identified the problem of imbalances in some Member States not receiving revenues that are equivalent to the costs paid by the ETS installations. The Council calls for having this issue addressed as part of the upcoming legislation together with the possible ETS extension or creation of a separate ETS for the current non-ETS sectors.

According to preliminary forecasts, emissions of EU ETS installations based in Poland will amount to approximately 185 million tonnes in 2022, with approximately the number of allowances dedicated to the national auctioning pool equal to cover the demand for ca. 65 million tonnes. This gives a negative balance of 120 million tons in the one year only.

It is important to ensure that the measure is structured in a way that limits to the minimum any distortion of competition in the market in the case of Member States with less allowances than their actual carbon dioxide emissions. The cancellation of allowances will result in a disproportionate reduction of allowances for the remaining installations on the market. It has to be ensured that at most an proportionate amount of allowances is cancelled which corresponds to the surplus due to the cancellation but leaves the same amount to the other installations as before.

Text proposal	PGE amendment
<p>378. The Member State must identify and quantify the expected environmental benefits of the measure, where possible in terms of subsidy per tonne of CO₂ equivalent emissions avoided. When assessing the benefits of the measure in terms of decarbonisation, the Commission will also take into account whether the measure includes a voluntary cancellation of CO₂ emission allowances at national level.</p>	<p>378. The Member State must identify and quantify the expected environmental benefits of the measure, where possible in terms of subsidy per tonne of CO₂ equivalent emissions avoided. When assessing the benefits of the measure in terms of decarbonisation, the Commission will also take into account whether the measure includes a voluntary cancellation of CO₂ emission allowances at national level. This rule shall not apply to the Member States, which are not receiving carbon revenues that are equivalent to the costs paid by the ETS installations in a given Member State.</p>

Section 4.13. Aid for studies or consultancy services on environmental protection and energy matters

It is unclear whether consultancy and analysis services in the ESCO formula can be eligible under the aid for research or advisory services in the field of environmental protection and energy. It should be clarified in the CEEAG.