

Part 1 State aid control

As input to the debate on how State aid control and environmental and climate policies work together – and how they could do that even better, please consider the following questions:

1. What are the main changes you would like to see in the current State aid rulebook to make sure it fully supports the Green Deal? Where possible, please provide examples where you consider that current State aid rules do not sufficiently support the greening of the economy and/or where current State aid rules enable support that runs counter to environmental objectives.

General Appreciation

The current framework has met the purpose of the 2014 State aid reform of better targeted aid. The inclusion of District Heating infrastructure in the guidelines as well as the updated notification threshold value for the DHC distribution network in GBER have resulted in easier access to aid for our projects. This being said, the Green Deal¹ will call for more active policies to deploy renewable and waste heat and substitute the outdated direct use of fossil fuels. With a view to providing stability for market operators and allow member states to proceed with a timely implementation the Clean Energy package, we believe that:

- The current EEAG should be extended until 2023, like GBER, and the revision be aligned with the preparation of new legislation necessary to achieve the more ambitious 2030 climate target.
- State aid approval (e.g. in-depth assessment) should be streamlined to provide faster access to aid (a time-limit for notification procedure could be established to speed up processes).

The following should be considered with a view to align the future framework with the objectives of the Green Deal:

– Aid intensity for DHC projects

The drop of gas prices for the residential market, since the rules were published in 2014, as well as the absence of a CO₂ price signal in the non-ETS sectors have slowed down investments into Efficient DHC. Consideration should be given as to whether current aid intensities - for renewable heat production and infrastructure development - are set at a level suitable to support the transition towards a sustainable heating and cooling sector in line with the objectives of the Green deal.

– Notification Threshold for DHC infrastructure

The €20 million value set out in GBER article 4 (w) has contributed to an easier access to State aid. Consideration should be given whether the notification threshold is still set at the relevant level to allow quick and smooth deployment of modern heating and cooling infrastructure. We believe that the value should be increased to reflect inflation since 2014 and mirror the more capital-intensive nature of the new generation of District Heating and Cooling networks. In the case of development of existing DHC networks, higher investments will be necessary as densification of networks is always more costly than early-stage deployment and focus on areas more difficult to reach with typically a higher number of smaller customers.

¹ In line with the 55% objective of CO₂ reduction by 2030, the Commission's Renovation Wave initiative estimates that the share of RES/Waste heat should reach 38-42% by 2030 – against 21% today,



– **Increased flexibility under GBER**

EEAG and GBER should enable Member States to provide aid in a flexible way under the form of both operating aid (e.g. for renewable heat) and investment aid to support the modernization of District Heating systems.

2. If you consider that lower levels of State aid, or fewer State aid measures, should be approved for activities with a negative environmental impact, what are your ideas for how that should be done? a. For projects that have a negative environmental impact, what ways are there for Member States or the beneficiary to mitigate the negative effects? (For instance: if a broadband/railway investment could impact biodiversity, how could it be ensured that such biodiversity is preserved during the works; or if a hydro power plant would put fish populations at risk, how could fish be protected?)

The current focus of State aid assessment should be maintained. The environmental impact of projects should still be evaluated in the frame of relevant EU and national environmental frameworks.

3. If you consider that more State aid to support environmental objectives should be allowed, what are your ideas on how that should be done?

a. Should this take the form of allowing more aid (or aid on easier terms) for environmentally beneficial projects than for comparable projects which do not bring the same benefits (“green bonus”)? If so, how should this green bonus be defined?

The overall approach of the current framework should be maintained. In particular, the essential rule that state aid should be granted at the minimum level necessary to address market failures and trigger investment decisions should be preserved to ensure that market distortions are minimized.

However the review should consider whether current aid intensities and thresholds are set at an adequate level in particular for Efficient DHC that will need to be further deployed in the future to shift the heating market towards the use of renewable sources, waste heat and high efficiency CHP. Under current market conditions these projects face distorted competition² from options (e.g. direct use of fossil fuels) which are not in line with the EU long-term decarbonization objective.

While costs to install new building-bound heating solutions are typically borne by individual households – with dedicated national/regional support schemes, the development of a new District Heating network is a typical capital-intensive infrastructure project whose investment is borne by one investor. As proved on some markets dominated by individual boilers, investment aid can help attract investors to develop new DH systems, or densify and renovate existing ones; but the level of aid should mirror evolving market conditions (example: on heat markets dominated by fossil fuel boilers, the decreasing price of retail gas price has not been compensated by an internalization of external costs and put a halt to new DHC projects).

The Commission Communication on system integration (July 2020) highlighted the critical role of heating infrastructure to support cross-sector integration and participate to the decarbonization of the energy system; it also refers to the need to provide adequate financing for flagship projects.

b. Which criteria should inform the assessment of a green bonus? Could you give concrete examples where, in your view, a green bonus would be justified, compared to examples where it would not be justified? Please provide reasons explaining your choice.

² On most markets individual solutions do not internalize external costs such as CO₂ emissions while combustion installations above 20 MW part of a DH network are covered by the Emission-Trading scheme. (‘The EU ETS directly or indirectly covers around 30 % of buildings emissions from heating’ in Stepping up Europe 2030’s climate ambition. European Commission (2020))



The overall approach of the current framework should be maintained. State aid should be granted at the minimum level necessary to trigger investment decisions while ensuring that market distortions are minimized. The set of criteria for environmentally beneficial activities and targets, in particular in the field of energy, are already laid down in existing and regularly updated European directives, regulations and delegated acts as well as by the additional Member State's own objectives and requirements.

4. How should we define positive environmental benefits? a. Should it be by reference to the EU taxonomy, and, if yes, should it be by reference to all sustainability criteria of the EU taxonomy? Or would any kind of environmental benefit be sufficient?

The EU screening criteria are still under discussion and have not yet been tested. Taxonomy could in principle help to provide a toolbox of criteria to inform on technologies - such as District Heating and Cooling - which are considered 2050-compatible and those necessary during a transition phase, under the condition that criteria are clear and build on the existing acquis. Likewise, the criteria applying to CHP could provide a basis to incorporate these installations in the energy transition pathway if they allow a gradual transformation of these installations towards climate neutrality³.

The scope of State aid rules is much wider than the objectives of taxonomy. While taxonomy considers individual technologies - to provide information on the sustainability of an investment, the assessment of State aid cases is always focusing on projects and how they can help deliver a higher environmental protection and contribute to common EU objectives considering national market conditions and energy mix, which differ across Europe. This approach should be maintained to drive an ambitious energy transition, with policies adapted to local challenges and opportunities.

The recent National Energy and Climate plans have displayed the different pathways that Member States will take to realize the energy transition. As highlighted also in recent discussions on the financing of the energy transition, some member states and regions will have to go through different stages of transformation to decarbonize their energy systems.

³ Combined with large heat pumps, thermal storage and the efficient use of RES, CHP installations will play a key role not only to produce efficiently heat and power but also to ensure the stable and safe operations of electricity grids and complement the integration of intermittent renewable sources. (Recital 15 of Draft Delegated act setting out screening criteria 'The technical screening criteria for determining whether electricity or heat generation activities, including cogeneration activities, contribute substantially to climate change mitigation should ensure that greenhouse gas emissions are reduced or avoided. Technical screening criteria based on greenhouse gas emissions should signal the decarbonisation pathway for those activities. However, they do not fully capture the benefits of combined heat and power generation for primary energy savings and the related resource efficiency. It may therefore be necessary to further assess and review those technical screening criteria. The technical screening criteria for enabling activities that facilitate the long-term decarbonisation should predominantly be based on the nature of the activity or on the best available technologies.')