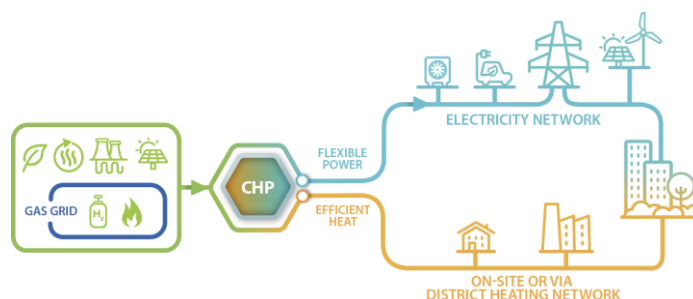


COGEN Europe position on the Revision of the Guidelines on State aid for Environmental protection and Energy 2014-2020 (EEAG)

Brussels, 7 January 2021

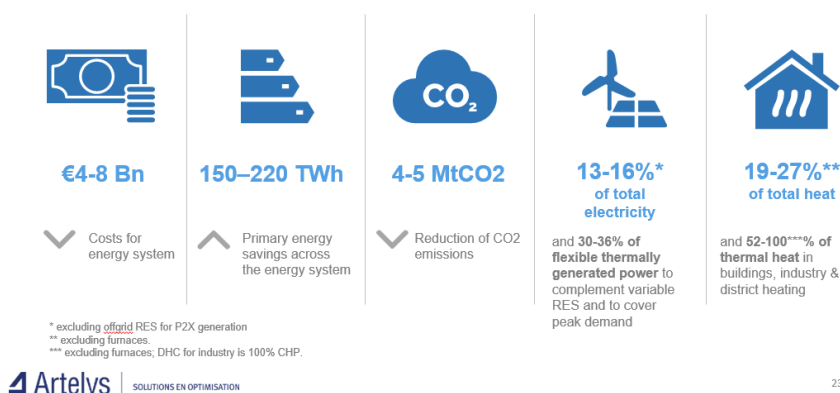
COGEN Europe welcomes the opportunity to provide feedback on the revision of the **Guidelines on State aid for Environmental protection and Energy (EEAG)** and the relevant provisions in **General Block Exemption Regulation (GBER)**. The cogeneration sector is committed to creation of a resilient, decentralised and carbon neutral European energy system by 2050 with cogeneration (CHP) as its backbone¹.



In this context, COGEN Europe members are ready to provide energy efficiency solutions that contribute towards climate change mitigation, support environmental protection, and ensure security of energy supply for European buildings, industry and SMEs.

In addition to its key role and important unlocked potential for 2030², there is mounting evidence that CHP can play a primary enabling role in a carbon neutral energy system by 2050. Its multiple benefits include cost-saving energy efficiency, grid stability/resiliency, system integration of electricity, power and gas, as well as reducing the need for additional energy infrastructure. All these benefits are currently not captured either in support schemes or by energy, capacity, ancillary or carbon markets.

CHP multiple benefits for net-zero in 2050



¹ Artelys, 2020. [Towards an efficient, integrated and cost-effective net-zero energy system in 2050. The role of cogeneration](#)

² EU project CODE2, 2015. [European Cogeneration Roadmap for 2030.](#)

As concerns the scope of and conditions for national aid measures in the context of the EEAG and GBER, COGEN Europe has the following high-level recommendations:

Provide for more effective and tailored support for efficient thermal generation: The EEAG and GBER should be better adapted to the business case for high efficiency CHP, where electricity production is inherently linked to the supply of efficient heat.

Investment aid for CHP

- Although competitive bidding may be more cost-effective for certain energy projects, the **broadly recognised benefits of the tenders do not apply to CHP projects**. COGEN Europe supports “funding gap” approach to ensure adequate investment aid for CHP (see next point).
 - CHP projects often require elaborated engineering efforts, which increases development costs. These additional costs will only be recovered if the CHP is successful in the bidding process.
 - CHP projects are usually subject to strict timing, based on heat customer requirements, compared for example with a wind farm project, which has little impact on the production process/activity of any specific industrial or residential customer. While investment decisions for CHP (vs. a less efficient boiler) have a long-term positive impact in terms of energy savings, the heat customer is often pressed to ensure continuity of supply and cannot afford a lengthy and/or uncertain support application process.
- The **GBER eligible investment costs for CHP** should be calculated based on of real-life project propositions, which often involve a new investment in **both the CHP and a supplementary boiler** (rather than the replacement of a boiler with a CHP alone).
- As concerns the adequate type of investment support for CHP under the GBER, COGEN Europe considers that **the funding gap approach is more appropriate** (compared to aid intensity). CHP project design is often complex and site-specific, requiring the integration of multiple technologies (e.g. CHP, supplementary boiler, storage, controls, heat pumps, PV) to address the diverse needs of customers. In some cases, multiple fuels (e.g. biomass and waste), multiple users (e.g. industrial user and residential district heating) and various modes of operation (e.g. mainly for self-consumption or self-consumption + grid injection) are involved. Given that it may be difficult to define standard CHP projects and equivalent standard counterfactuals, COGEN Europe considers it more appropriate to develop a robust methodology to apply the funding gap approach to complex CHP projects.
- With the (expected) higher uptake of renewable and decarbonised gases, significant investments will be needed to convert existing cogeneration plants to e.g. 100% hydrogen only plants. As such, **GBER’s Art 40 should be further extended so as to include as eligible the costs that are related to the conversion of an existing plant into a plant that is able to produce electricity and heat using 100% renewable/decarbonised gases such as hydrogen**.

Operating aid for CHP

- While there are advantages to investment aid, **operating aid or a combination of investment and operating aid may be preferable in some cases**. Investment aid puts a higher burden on the national finances. Given that both support demands and available budgets may fluctuate year on year, oversupply/overdemand for investment aid risks creating uncertainty for the sector.
- **EEAG should be extended to operating aid for heat produced from CHP**. Since for the moment CHP support is only defined explicitly for the electricity generation part and not for heat, national support schemes often overemphasize the production of electricity (rather than the efficiency or decarbonisation benefits across both electricity and heat).

- **Operating aid should be extended to CHP beyond its depreciation period:** Section 3.3.2.3 of EEAG provides for aid for existing biomass plants after depreciation. Similar provision should be considered also for CHP plants. From the cost efficiency perspective keeping existing CHP plants in operation can be reasonable even after they have been depreciated. In some cases this requires operating aid, even though much lower than for new plants. These CHP plants will support the transition to a low-carbon heating and power sectors and also play a vital role for grid stability.
- The increasing role of prosumers should be better taken into account. Therefore, **comparable support should be provided for self-consumed electricity as for electricity exported to the grid**, rather than exclude self-consumed electricity.
- **CHP using carbon neutral fuel (e.g. bio-CHP) require additional operational support** (see section on “green bonus”) as operational costs are expected to be higher in the short to medium term than the operational costs of fossil fuel driven electricity and heat production. Investment aid for renewable CHP projects would need to be complemented by operating aid support to address fluctuating market conditions risks (e.g. increase in the price of renewable fuels).

Use transparent, ambitious and well-established frameworks to show environmental performance

COGEN Europe supports the introduction of “green bonuses” for high environmental protection, provided that the criteria to award them is robust and complementary to the overall EEAG. Given the importance of energy and resource efficiency to ensure both cost-competitiveness and environmental protection, high efficiency CHP should be one of the criteria to gain access to such green bonuses when it comes to thermal energy production and system adequacy:

- 1) When CHP provides additional CO₂ savings compared to the marginal power/heat mix it displaces, such additional benefits should be recognised
- 2) In addition, when renewable thermal sources are used with CHP a bonus should be offered to support their efficient use.
- 3) As concerns system adequacy and flexibility, the provision of such services in the most efficient way with CHP should be subject to a “green bonus”

For CHP, COGEN Europe recommends the “high efficiency CHP” framework³ is used to measure environmental performance, as it has a good track record of implementation over the past 16 years. It also ensures increasingly higher ambition, as the reference values used to compare CHP to the separate heat and power production are revised upwards every 4-5 years. In addition, this framework is flexible enough to allow member states to promote CHPs using specific fuels (e.g. lower carbon or renewable), depending on their own energy mix and decarbonisation pathways. Alternative methods⁴ to account for the carbon intensity/efficiency of the marginal mix displaced could further ensure eligibility of CHP for green bonus schemes.

Taxonomy and State Aid serve different purposes and should not be mixed together

COGEN Europe strongly disagrees with using the EU Taxonomy as a reference for defining the “positive environmental benefits” of a project, that could eventually determine the level of state aid that a project is eligible for. As also acknowledged in Recital 16 of the draft Taxonomy regulation⁵, the Taxonomy regulation is inconsistent and lacks robustness when it comes to cogeneration.

³ Outlined in the [Energy Efficiency Directive 2012/27/EU](#), [Commission Delegated Regulation \(EU\) 2015/2402](#) and [Commission Decision 2008/952/EC](#)

⁴ FfE, 2018. EU Displacement Mix. [A Simplified Marginal Method to Determine Environmental Factors for Technologies Coupling Heat and Power in the European Union](#)

⁵ [Draft taxonomy Regulation](#) points out that the technical screening criteria for CHP “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.”

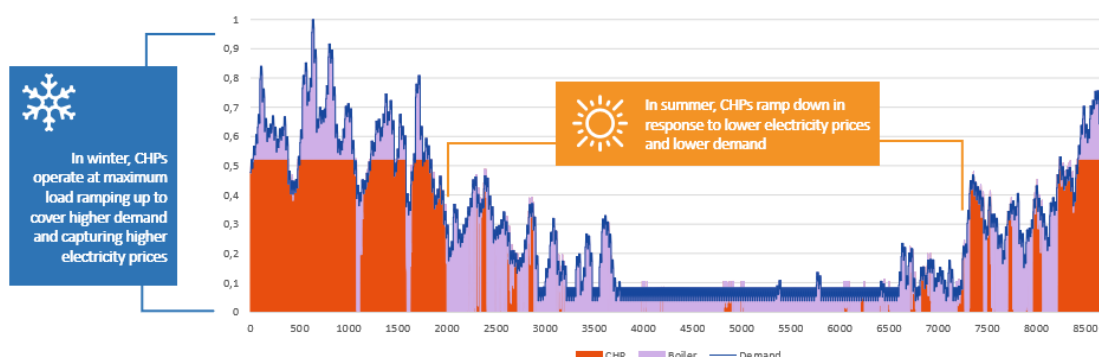
The initial aim of the Taxonomy framework was to act as an “umbrella-guidance” for financial institutions to frame their lending policy. However, the Technical Expert Group (TEG) that developed the first set of proposals of the Taxonomy’s Technical Screening and Do No Significant Harm criteria was marked by a significant lack of industrial representation and transparency. This led to several of the proposed thresholds in the draft delegated act published by the European Commission, being unrealistic and, in some cases, even impossible to achieve. Linking state aid to EU Taxonomy risks that several projects will not be able to receive the required level of state aid, even if these would make significant contributions towards the EU’s energy and climate ambitions.

In this regard, COGEN Europe opposes the application of the Taxonomy Regulation criteria as a reference for defining state aid related policies.

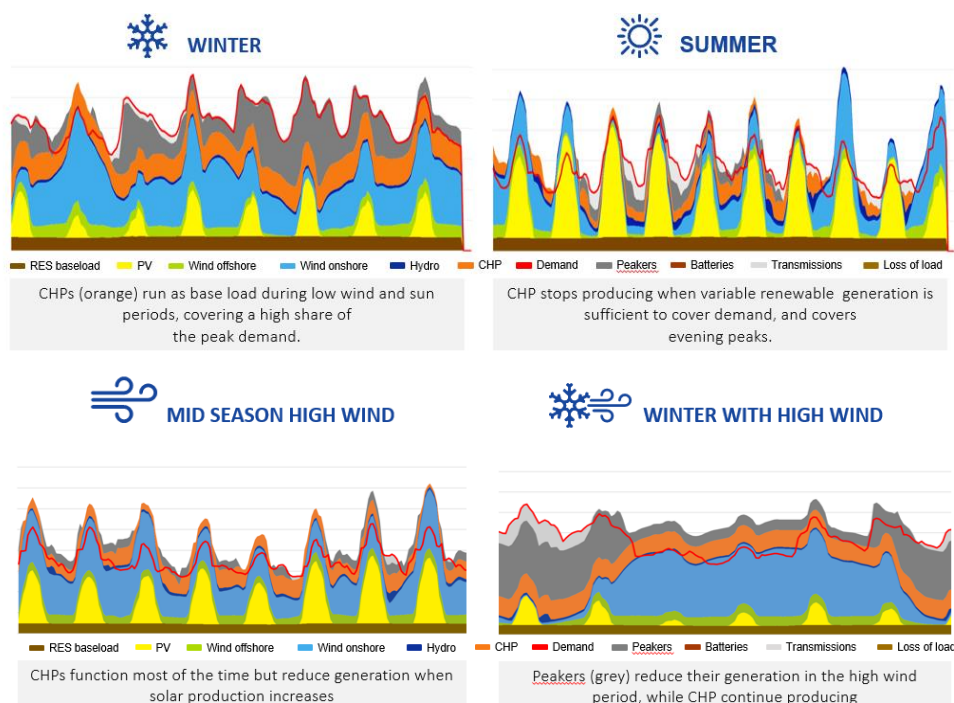
Recognise the emerging trends in sustainable energy, including energy systems integration and the uptake of renewable and decarbonised gases

- EEAG and GBER should be aligned with the revised Renewable Energy Directive, including developments in **renewable and decarbonised gases both on and off-grid**.
- **Better accounting for energy system integration solutions that bring system level benefits** such as avoided grid losses or grid reinforcement costs, that enable higher shares of intermittent renewables and that provide security of energy supply. Operating aid could incentivise CHP to be run more flexibly by reacting more strongly to market signals. The optimised and integration simulations of cost-effective CHP for net-zero in 2050 show that the CHP fleet could be operated to complement/support rather than compete with variable renewable energy (see below).

Focus on heat: Optimised CHP operation in DHC in net-zero 2050 scenario²



Focus on power: Optimised CHP fleet at EU level in net-zero 2050 scenario²



- Provide for **simplified administrative procedures for small scale installations**, such as fuel cells and micro-CHP. This will ensure that the uptake of building-level solutions is facilitated through quicker access to support schemes.

Address lengthy state aid approval procedures, remove bureaucracy and ensure industry is consulted: The state aid rules should provide a better framework and clearer timeline for national governments to have support schemes approved, as part of a transparent process that involves industry at all stages.

Include stability of support criteria: The EEAG should be amended to reflect the principles in Article 6 of the revised Renewable Energy Directive ((EU) 2018/2001) for both renewable energy and cogeneration. This would ensure security of investments in energy efficiency technologies across different applications (i.e. residential, industrial and DHC).

Cummulation of different support schemes: The cummulation of EU, national and regional support should be facilitated and not subject to burdensome bureaucracy.

About COGEN Europe:

COGEN Europe, the European Association for the Promotion of Cogeneration, is the cross-sectoral voice of the cogeneration industry. Its mission is to work with EU institutions and stakeholders to shape better policies and eliminate administrative, regulatory and market barriers to the wider use of cogeneration in Europe. EU Transparency Register Identification Number: 38305846546-70.

Contact person:

Alexandra Tudoroiu-Lakavice, Senior Policy Manager - alexandra.tudoroiu@cogeneurope.eu