

EGEC views on the State aid for environmental protection and energy

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We welcome the opportunity to contribute to the consultation on the State Aid guidelines for environmental protection and energy Inception Impact Assessment and wider process. We support the European Commission's position to widen the scope of the guidelines for further technological and market innovations and organise the State Aid rules around EU policy objectives. Our recommendations are:

1. Alignment with the 2030 climate and energy framework and the 2050 climate zero-carbon target

The current guidelines were designed to support Member States reaching their 2020 targets and now must become compliant with the 2030 climate and energy framework and the 2050 zero-carbon target. It should include the provisions laid down in the **Clean Energy Package for All Europeans**, and the recast of the **Renewable Energy Directive (2018/2001/EU) and the Energy Efficiency Directive (2012/27/EU and 2018/2002/EU)** and be rapidly amended to accommodate the revisions which are to be issued launched in 2021.

2. Widening the scope of State Aid legislation and extending support measures to:

a) Geothermal lithium and sustainable extraction of critical raw materials:

Lithium is a vital raw material essential for the success of the decarbonisation of the EU's mobility, industrial strategy, technological innovation, competitiveness and prosperity. Proven reserves of geothermal lithium have been discovered in France and Germany but the full extent of reserves in other Member States has not been mapped. These plants have significant quantities of lithium hydroxylate which can be captured using innovative Direct Lithium Extraction (DLE) technology. This technology can be retrofitted to all existing geothermal plants substantially increasing domestic supplies of this vital metal.

Geothermal plants with lithium deposits should be eligible for 100% State Aid support without prior notification. The revised guidelines must include new provisions on geothermal lithium and sustainable extraction of critical raw materials. These should be based on **Article 191 of the Treaty on the Functioning of the European Union (TFEU)**, that aims to preserve, protect and improve the quality of the environment. It also specifically highlights the need for a careful and rational use of natural resources.

b) Application of thermal energy storage with renewable energy sources: Thermal energy storage is a vital domestic resource requiring greater clarity and recognition in State Aid. Under the current GBER framework thermal energy storage is not expressly mentioned, and it is unclear whether such aid measure would fall under **Article 46 on district heating infrastructure or Article 48 on energy infrastructure**. This new market development should be specifically addressed in the revised guidelines. **We recommend it is recognised in both categories.**

3. Levelling the playing-field for renewable district heating and cooling projects:

We recommend the investment aid for energy efficient and renewable district heating and cooling projects must consist of 100% of the eligible costs, instead of 45% (under the current provisions). This is the counter the significant fossil fuel subsidies that have been granted to heating transmission and distribution infrastructure, appliances and even fuel consumption through regulated energy prices in the guise of the Internal Market for Gas. Geothermal district heating and cooling systems are at a competitive distortion because they have to access finance to pay for the geothermal energy source and the district heating and cooling infrastructure. 100% State Aid intensity helps to level the playing field and create genuine competition between renewable and fossil heating solutions.

4. Strengthening support for technology-specific tenders

The current guidelines outline technology-specific tenders as an exception.¹ However, the notion of 'technology-neutrality' does not play out in practice for two reasons:

¹ [Guidelines on State aid for environmental protection and energy 2014-2020 \(2014/C 200/01\)](#), **Article 3.3 Aid to energy from renewable sources**, (110) However, given the different stage of technological development of renewable energy technologies, these Guidelines allow technology specific tenders to be carried out by Member States, on the basis of the longer-term potential of a given new and innovative technology, the need to achieve diversification; network constraints and grid stability and system (integration) costs.

a) Regulatory lock-in: EU and national regulations on the Internal Market for Gas block competition and substitution for heating and cooling services from renewable providers.

b) Design lock-in: Using narrow matrixes - cost/MWe for capital costs or Levelised Cost of Electricity (LCOE) without integrating system costs or negative externalities - to measure renewable energy projects creates distortions and competitive distortions. The Council of the European Energy Regulators found that tendering schemes tended to be technology specific (eight of the ten Member States who established tendering schemes operated technology-specific tenders).² This is because each renewable energy technology provides unique services and has specific characteristics which need to be accounted for in the design of support schemes. All competitive bidding processes need to be differentiated according to the technical characteristics of each technology (cost, size, risk profile, load factor, project lead time, ability to provide system services etc). We recommend strengthening the role of technology-specific tenders by maintaining the link to the provisions outlined in **Article 4 of the Renewable Energy Directive (2018/2001/EU)**.³

5. Ensuring well-designed and effective capacity mechanisms:

The Commission and the Member States must displace fossil generation capacity with renewable energy solutions to meet the 2030 and 2050 climate and energy targets. Capacity payments have proven to discourage investments in geothermal and other renewable energy sources by supporting incumbent fossil coal and gas installations.

An [investigation](#) conducted by Greenpeace found that in 2018 almost €58 billion or 98% of these subsidies was added to energy bills to prop up coal and gas plants and in the last twenty years.⁴ Spending on capacity mechanisms across the EU has nearly quadrupled. The revised guidelines must promote renewable electricity supply without distorting competition or trade in the EU Single Market. It should support EU Member States in directing its sustainable investments in the development of **local, renewable, reliable and competitive capacities**.

² [Council of the European Energy Regulators](#), (2020) Tendering procedures for RES in Europe: State of play and first lessons learnt

³ [Renewable Energy Directive \(2018/2001/EU\)](#), **Article 4.5 Support schemes for energy from renewable sources**, Member States may limit tendering procedures to specific technologies where opening support schemes to all producers of electricity from renewable sources would lead to a suboptimal result, in view of: (a) the long-term potential of a particular technology; (b) the need to achieve diversification; (c) grid integration costs; (d) network constraints and grid stability; (e) for biomass, the need to avoid distortions of raw materials markets.

⁴ Greenpeace (2018) EXPOSED: €58 billion in hidden subsidies for coal, gas and nuclear

6. Providing a clear methodology for defining innovative technologies

The current GBER foresees that "*aid shall be granted to new and innovative renewable energy technologies in a competitive bidding process open to at least one such technology*". However, there is no reference to the methodology that clearly defines a "*new and innovative technology*". For example, it is unclear if Member States can grant aid for innovative technology such as Enhanced Geothermal Systems (EGS) or Closed Loop Systems. We recommend these technologies are classified as "*new and innovative technologies*".

7. Continue granting financial support for renewable energy sources

As long as fossil fuels subsidies are still granted by the Member States and insufficient pricing of the cost of associated externalities remains alongside the lack of an EU wide common scheme favouring renewables, State Aid legislation must continue to level the playing-field with incentives and exemptions for geothermal and other renewable energy projects. Furthermore, geothermal energy is put at a significant disadvantage by a focus on the internal market for gas rather than heat. This allows fossil gas subsidises across its value-chain from infrastructure, distribution, appliances, fuel purchases and even training for installers.

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