

AGFW-Contribution

EU renewable energy rules – review

Public consultation

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AGFW, the German association on district heating and cooling (DHC) and combined heat and power (CHP), welcomes the possibility to voice its opinion on the revision of the European Renewable Energy Directive (REDII). Meeting our common climate ambitions demands a significant upscale of the development and widespread deployment of renewable energies within Europe. In this regard, AGFW is convinced that the revision of REDII poses a unique opportunity to develop a common legislative framework to increase the availability and cost competitiveness of renewable energy across the entire spectrum of the European energy sector. As recent Commission initiatives such as the “Renovation wave” have already underlined, a special emphasis in the new framework must be placed on increasing the utilization of renewable energy within the buildings sector. Here, DHC, which already today accounts for a large part of the renewable energy share in heating and still harbors significant untapped potential for further cost- and resource efficient decarbonisation, can play a pivotal role in the sector’s energy transition.

Although decarbonisation can be most effectively addressed via steering mechanisms such as consistent carbon pricing or emission trading, AGFW is prepared to support binding and increased RES-targets for the sector. Since however the effectiveness of sectoral RES-targets as drivers for decarbonisation will decisively depend on their underscoring ramifications and the appropriate consideration of the heating market’s distinct characteristics, AGFW aims to highlight several key aspects that should guide the current revision process:

- **Establishment of a level playing field between DHC and individual heating regarding the expansion of renewables**
- **A streamlined regulatory framework applicable to DHC providers focusing on decarbonisation and RES-expansion**
- **Consistently prioritizing RES-expansion in heating and cooling across the wider European energy policy framework through carbon pricing and the enablement of public investments via State aid reform**

Establishment of a regulatory level playing field: A potential increase of RES-targets in the heating and cooling sector should reflect past sectoral renewable trajectories to secure technological neutrality and develop a consistent sectoral transition path. While DHC has accounted for an over proportional share of previous RES-inclusion, individual heating systems have remained fossil fueled. To sufficiently address these significant ambition gaps of RES-

expansion, Art. 23 and 24 must thus continue to maintain individual RES-targets for DHC (Art.24) and the general heating sector (Art. 23) respectively. A missing proportional correlation between RES-targets in Art. 23 and 24 could otherwise be liable to promote a reduction of overall DHC capacities (“internal Carbon Leakage”), detrimental to the sector’s long-term decarbonisation ambitions. Maintaining a level playing field between DHC and individual heating will furthermore require a full appreciation of waste heat and renewable electricity (eg. large scale heat pumps) towards DHC RES-targets in order to set the right incentives for the key pillars of the future energy transition of DHC. In order to incentivize the further development of sector integration and given the high share of renewables within electricity production in some Member States especially during peak hours, it could be considered to account electricity as generally renewable if the electricity mix exceeds RED electricity targets. Since DHC networks, as independent island systems, are following individualized decarbonisation pathways, RES-targets must furthermore not be network specific, but have to be set on Member States level with sufficient consideration of the state of play in national heating sectors.

Streamlining the regulatory framework for DHC networks: Implementation of greater RES-expansion within heating and cooling will demand a clear prioritization within RED’s regulatory framework. The RED revision process should thus focus on aligning the current legal framework with the envisioned upscale of RES use in heating and cooling by streamlining secondary requirements to provide operators with the necessary regulatory flexibility to achieve the targets. Regarding network decarbonisation via the inclusion of external sources, regulation should acknowledge a parity between renewable energy and waste heat to ensure an equal regulatory treatment of the latter. In fact, given the current lack of excess renewable heat within urban areas (less than 1%), the introduction of additional regulatory features such as prosumer rights would yield no benefits for the decarbonisation of heat supply but would instead create non-efficient competition for urban electricity prosumption (eg. Solar PV). On the contrary, the integration of waste heat would be able cover at least 25 percent of current DHC demand and should thus be prioritized. An increase of waste heat supply from the industrial and service sector could for example be achieved via tax incentives or through the possible accountability of industrial waste heat deployment for additional ETS certificate allocation. With respect to the strengthening of DHC consumer rights, the Commission should ensure the stringent implementation of the present framework before extending existing requirements.

Prioritizing RES-expansion in heating across the wider European energy framework: Raised ambitions regarding RES-inclusion within the heating and cooling sector will further-

more require a coordinated regulatory environment to enable the necessary structural investments. Aside from the general need for consistent carbon pricing within the sector, RES-inclusion will in particular demand considerable public support to overcome existing market failures and a revision of energy taxes and other levies to improve the market competitiveness of Power to Heat solutions and enable DHC electrification.

Regarding the incentivisation of public support, the existing European State aid framework (GBER, EEAG) should be fundamentally revised. Especially given the considerable existing carbon intensity of heating and the sector's parallel very modest impact on the internal market structure, a significant increase of present applicable GBER thresholds to allow for the swift and large scale development of RES-DHC capacities should be considered. With respect to the indispensable deployment of Power to Heat solutions, current impediments such as double taxation should particularly be addressed within the revision of the Energy Taxation Directive. Furthermore, greater public engagement is required to scale up RES generation itself, particularly with respect to renewable electricity as well regarding renewable heat sources such as geothermal energy. In general, the elevation of RES-targets should therefore be underscored by a parallel extension of enabling instruments to allow their subsequent implementation.

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