

Response to the Commission Roadmap

On

**STATE SUBSIDIES – EXEMPTIONS TO APPROVAL
REQUIREMENT FOR THE GREEN DEAL AND EU
INDUSTRIAL AND DIGITAL STRATEGIES**

Frankfurt, 01.04.2021

AGFW ist der Spitzen- und Vollverband der energieeffizienten Versorgung mit Wärme, Kälte und Kraft-Wärme-Kopplung. Wir vereinen rund 550 Versorgungsunternehmen (regional und kommunal), Energiedienstleister sowie Industriebetriebe der Branche aus Deutschland und Europa. Als Regelsetzer vertreten wir über 95 % des deutschen Fernwärmeanschlusswertes.

General appreciation

AGFW, the German association for DHC (district heating and cooling) and CHP (Combined Heat and Power), welcomes the possibility to voice its opinion on the revision of the General Block Exemption Regulation (GBER). AGFW is convinced that a fundamental revision of GBER underscored by a new approach to State aid control in the context of the European Green Deal is indispensable to achieve 2030 climate targets.

Key messages:

- Public investments to decarbonize national heating markets are effective tools of climate policy that do not distort competition within the internal market.
- Given the lack of a level playing field, the expansion of low carbon technologies such as DHC is hampered in the absence of public support.
- The narrow thresholds of the present GBER framework prevent the swift roll-out of targeted public support necessary to meet 2030 targets in the heating sector.

Public support of the heating transition as a precondition for meeting 2030 ambitions

As the Commission's Green Deal agenda has rightfully pointed out, public funding will have to play a pivotal role in steering the decarbonisation of Europe's energy system in the view of 2030 targets. While substantial public support has previously succeeded in increasing the RES-share within the electricity sector, heating and cooling markets still continue to be one of Europe's most carbon intensive industries and have almost completely remained fossil fueled. As outlined in the recent communication on the NextGen investment program, meeting our common climate objectives for 2030 now demands a similarly ambitious effort of concerted public investments within heating and cooling. Especially with respect to the urban existing buildings stock –the sector's most challenging segment to decarbonize - DHC continues to be the only deployable technology with a viable pathway towards decarbonisation. However, insufficient carbon pricing for non-ETS competitors as well as a lack of financial capacities of the oftentimes municipally owned DHC operators create both competitive advantages for carbon intensive competitors and prevent investments towards further network decarbonisation. Here, public support is thus required to bridge the market's existing structural disparities and allow for an equal-footed competition.

A better appreciation of the heating sector's structure within European State aid review

The heating sector - an umbrella term for myriad local and isolated markets - is unable to affect trade between Member States or interstate competition within the internal market since cross-border heating markets are non-existent and local heating prices do not unfold measurable cross-market effects. This should be appropriately reflected in the upcoming revision process and the future scope of European State aid review. To the extent that heating markets are deemed to be subject to the future State aid framework it should be underlined that from a comparative risk-benefit-perspective public subsidies within the heating sector are posed to unlock consequential carbon reductions without incurring systemic risks for State aid control, especially if viewed in direct comparison to other carbon intensive sectors such as transport.

Proposed adjustments to the present GBER framework:

Raising the notification threshold for investment aid for DHC networks Art. (4 w) to 100 Mio. Euro

Within DHC, carbon intensity is usually proportional to grid size. This means that public investment initiatives aiming to drive forward overall grid decarbonisation must particularly focus on large scale urban heating networks, which however requires relatively high individual aid contributions due to the high capital intensity, supply diversification and overall larger project scale. In Germany, the 70 largest networks that account for more than 95 percent of DHC supplied heat will require investments of 188 Mio. Euro on average to decarbonize.¹ This should be reflected in the GBER revision process by raising the current notification threshold to at least 100 Mio Euro per undertaking per investment project.

Introduction of a separate section for investment aid to heat storage systems with a threshold of 20 Mio. Euro per undertaking per investment project

Heat storage systems especially large scale seasonal storage are a crucial component of the sector's transition they should be appropriately accounted for within the GBER framework in order to facilitate targeted aid schemes in their support.

Broadening the scope of State aid for energy efficient district heating and cooling from investment to operating costs in Art. 46 (2) GBER

Given the insufficient CO₂ price signal for non-ETS competitors on the heating market and the current inadequate internalization of carbon related costs, the successful fuel switch towards climate neutral heat supply within DHC will have to be supported through operating aid schemes. This should be reflected in a Green Deal aligned GBER framework. Aid schemes applicable to DHC should furthermore be exempted from public tendering requirements as DHC networks never compete against each other, but with other locally available heat suppliers.

Introduction of a separate section to promote the sector integration of CHP generation

Climate neutral CHP is a cornerstone technology for the future resilience and stability of the energy system. Their role as a backbone of sector integration should thus be promoted via a separate section for targeted support of investments into P-t-X-applications and the "H₂ readiness" of CHP generation.

Introduction of an exemption clause for small scale and carbon neutral DHC

Local energy communities are a cornerstone of Europe's energy transition and provide a crucial link for citizen engagement in Europe's climate policies. Especially in the heating sector, locally operated heating networks are also an important component of decarbonisation, consistently achieving high RES-shares far above RED trajectories.

However, the current State aid requirements within Art. 46 GBER, such as the pre-determination of earnings, are extremely burdensome to fulfill for these small and oftentimes cooperatively organized entities, which prevents their coverage through targeted public support schemes. This should be remedied by introducing a separate clause for the promotion of small scale DHC networks with a notification threshold of 2 Mio. Euro and streamlined calculation requirements. A similar provision should be introduced to allow for the targeted promotion of expanding carbon neutral DHC networks.

¹ [Prognos, Hamburg Institute Study: „Perspektive der Fernwärme“](#)

Equal treatment of operating aid for the promotion of renewable energy sources

The qualitative distinction between operating aid for renewable electricity on the one hand and other energy sources on the other is neither justifiable from a State aid perspective nor from the perspective of climate policy especially since the fuel switch within heating has been identified as a top priority. Articles 42 and 43 should thus be merged into a common framework for RES-promoting operating aid.

Raising aid intensities for investment aid to renewable energy promotion in Art. 41 (7)

Aid intensities for investment aid to promote the expansion of renewable energy should be raised by 15% to align the GBER framework with the projected REDII RES-targets and allow for an ambitious expansion of renewable capacities.

Raising aid intensities for aid to research and development projects in Art. 24 (5) b-c

In order to promote the innovation necessary to achieve a restructuring of DHC fuel composition- especially in regard to the deployment of hydrogen aid intensities for R&D projects in industrial and experimental research should be raised by 25%.

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