

AGFW-Position Paper

Renewable Energy Directive

Frankfurt, 18th November 2021

AGFW is the German energy efficiency association for heating, cooling and cogeneration. We represent more than 550 utility companies (national and regional), energy service providers as well as industrial companies of the sector across Germany and Europe. As rule-setting body we represent over 95 % of Germany's DHC market.

AGFW Position Paper on the revision of the Renewable Energy Directive

A holistic definition on renewable energy sources

The definition of renewable energy in the future renewable energy directive will be of incremental importance for the sector as the primary underlining benchmark of the energy and climate framework. AGFW is convinced that the definition on renewable energy sources should be fit for propose to reflect the future structure of Europe's energy system especially in terms of the growing importance of sector integration. This should be achieved by explicitly extending the current definition to energy carriers produced by utilizing energy from renewable sources such as hydrogen or fuels as well as heat or cold derived from electricity.

A balanced approach to the integration of renewable third-party heat and waste heat

As of today, a considerable number of Germany's district heating and cooling networks are already supplied with heat from external sources. Where their integration is technologically and economically feasible, existing external renewable heat and waste heat sources are already an important element in many network decarbonisation strategies with operators continuously seeking to advance their further integration. It is usually not a lack of stakeholder commitment that stands in the way of further advancing the external integration of external heat sources but technical and economic considerations from operators or third parties that limit the actual capacity of renewable heat and waste heat suitable for integration.

For this reason, AGFW wishes to advocate in favor of an approach that focuses on addressing these technical and economic barriers to increase the overall availability of accessible external renewable heat and waste heat sources. Here, targeted national support schemes as well as supportive regulatory frameworks would help to overcome these impediments, strengthen the business case for external integration and therefore enable and facilitate local project advancement.

A well-balanced approach to the further development of consumer information requirements

In regard to the further development of requirements for consumer information in district heating and cooling, AGFW argues in favor of a well balanced approach that also takes into account the technical evaluability and comparability of information as well as their eventual added value for consumers. Moreover, additional information requirements should be scrutinized in terms of the cost-effectives of their perceived added information value to consumer welfare.

Proposed Amendments to the Renewable Energy Directive

Art 2 No. (1): Definition on Renewable Energy

Position

AGFW welcomes the Commissions proposed revision of the definition for renewable energy. However, AGFW wishes to propose several adjustments to improve the definitions alignment with the development of the future energy system and sector integration. In that regard, the scope of the future definition on renewable energy should clearly extend to energy carriers such as hydrogen or fuels as well as heat or cold derived from renewable electricity. While underlining the overall ambition of renewable energy expansion, such an approach would furthermore substantially facilitate the system integration of increasingly renewable electricity by establishing a level-playing-field for sector integration technologies such as power-to-heat-installations. Moreover, energy carriers generated in a climate neutral production process should be treated equally to renewable energy sources, if their production process leads to permanent carbon sequestration.

Proposal

*energy from renewable sources' or 'renewable energy' means energy from renewable non-fossil sources, namely wind, solar (solar thermal and solar photovoltaic) and geothermal energy, ambient energy, tide, wave and other ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas, and biogas. **Energy carriers, e.g. heating and cooling, hydrogen or fuels, produced by either utilizing electricity generated from renewable energy sources are equally counted 'energy from renewable sources' or 'renewable energy' in the respective sector.***

Art 15a Mainstreaming renewable energy in buildings

Position

AGFW is supportive of the Commission's ambition to introduce an additional specifying renewable energy target for the European buildings sector. However, in order to strengthen the legal consistency of the overall target architecture within the Renewable Energy Directive AGFW advocates in favor of a clear confinement of the scope to the building's stock heating and cooling demand. Moreover, AGFW proposes to put an additional emphasis on primary energy efficiency to increase the effects of renewable energy development in regards to the reduction of total carbon emissions of the sectors energy consumption.

Proposal

*1. In order to promote the production and use of renewable energy in the building sector, Member States shall set an indicative target for the share of renewables in **final primary** energy consumption in their buildings sector in 2030 that is consistent with an indicative target of at least a 49 % share of energy from renewable sources in the buildings sector in the Union's **final** consumption of energy in 2030. The national target shall be expressed in terms of share of national **final primary** energy consumption and calculated in accordance with the methodology set out in Article 7. Member States shall include their target in the updated integrated national energy and climate plans submitted pursuant to Article 14 of Regulation (EU) 2018/1999 as well as information on how they plan to achieve it.*

2. Member States shall introduce measures in their building regulations and codes and, where applicable, in their support schemes, to increase the share of ~~electricity and~~ heating and cooling from renewable sources in the building stock, including national measures relating to substantial increases in renewables self-consumption, renewable energy communities and local energy storage, in combination with energy efficiency improvements relating to cogeneration and passive, nearly zero-energy ~~and zero-energy~~ buildings.

To achieve the indicative share of renewables set out in paragraph 1, Member States shall, in their building regulations and codes and, where applicable, in their support schemes or by other means with equivalent effect, require the use of minimum levels of energy from renewable sources in buildings, in line with the provisions of Directive 2010/31/EU. Member States shall allow those minimum levels to be fulfilled, among others, through efficient district heating and cooling.

Art 20 3): NECP

Position

AGFW advocates in favor of a better appreciation of sector integration technologies such as power-to-heat-installations as part of the assessments included in the integrated national energy and climate plans in order to improve the national integration of energy infrastructures across economic sectors. In particular, AGFW has identified great potential in integrating heating and cooling infrastructure as storage facilities for electric grids to save excessive available electricity during low demand or peak generation hours through power-to-heat installations.

Proposal

Subject to their assessment included in the integrated national energy and climate plans in accordance with Annex I to Regulation (EU) 2018/1999 on the necessity to build new infrastructure for district heating and cooling from renewable sources in order to achieve the Union target set in Article 3(1) of this Directive, Member States shall, where relevant, take the necessary steps with a view to developing efficient district heating and cooling infrastructure to promote heating and cooling from renewable energy sources, including solar energy, ambient energy, geothermal energy, biomass, biogas, bioliquids and waste heat and cold, in combination with thermal energy storage **and power-to-heat installations**.

Art 23 (4) Renewable targets - Connection to efficient DHC

Position

AGFW strongly advocates in favor of a technology neutral approach to promote the decarbonisation of the heating and cooling sector and therefore wishes to propose that the promotion of efficient district heating and cooling systems are explicitly recognized as a possible measure for Member states to meet their renewable energy targets in the sector.

Besides, a clear reference to efficient district heating systems as a key pillar of heating decarbonisation would also be in line with the Commissions general perspective on the role of district heating and cooling and thus strengthen the coherence of the European climate and energy legislation at large.

Proposal

To achieve the average annual increase referred to in paragraph 1, Member States may implement one or more of the following measures:

(a) physical incorporation of renewable energy or waste heat and cold in the energy sources and fuels supplied for heating and cooling;

(b) installation of highly efficient renewable heating and cooling systems in buildings or the use of renewable energy or waste heat and cold in industrial heating and cooling processes;

(b2) promotion of connecting buildings to efficient district heating and cooling systems

Art. 24 (1) Consumer information

Position

AGFW is a strong advocate of advancing consumer welfare in the heating market. In this regard, AGFW wishes to emphasize that consumer surveys regularly acknowledge district heating and cooling as the most popular market solutions from a consumer perspective. Addressing consumer welfare on the heating market therefore requires a broader approach to the heating market in general since a confinement to district heating and cooling as foreseen in Art. 24 (1) would not be sufficient to address this issue.

Moreover, AGFW proposes to look at the overall perspective on consumer welfare with a stronger connotation of price stability in the overall perspective on consumer welfare offered by district heating operators while competing solutions are more volatile. In that regard, the proposal to extend standard consumer information to network related heat losses should be rethought for the following reason: network related losses have not been identified as cost relevant for final consumers, however as it would be disproportionately difficult to establish a verification system for such losses in a technically reliable manner, their inclusion would potentially have an impact on price design thus diminishing consumer welfare in the long run. Moreover, the Commission proposal should take into account that customers of district heating generally are usually housing companies and not final consumers.

Proposal

Member States shall ensure that information on the energy performance and the share of renewable energy in their district heating and cooling systems is provided to final ~~consumers~~ **customers in accordance with the definition laid out in Directive EU XXX/XX (EED) article 2** in an easily accessible manner, ~~such as~~ on the suppliers' websites, ~~on annual bills or upon request~~. **This information shall be provided respecting contractual relationships.** The information on the renewable energy share shall be expressed ~~at least~~ as a percentage of gross final consumption of heating and cooling assigned to the customers of a given district heating and cooling system. ~~including information on how much energy was used to deliver one unit of heating to the customer or end-user.~~

Art. 24 (4) Carbon neutrality target

Position

AGFW supports the Commission's ambition to increase the share of renewable and waste heat sources in district heating and cooling in view of 2030. In order to lay a stronger focus on emission reduction, AGFW proposes an inclusion of carbon neutral energy sources relying for example on carbon abatement technologies such as CCS and CCU into the definition.

Furthermore, AGFW wishes to emphasize that the required facilitation of the energy transition in heating and cooling will require considerable public support in some Member States.

Proposal

*Member States shall endeavour to increase the share of energy from renewable, **including heat generated from electricity from renewable energy sources and carbon neutral sources** and from waste heat and cold in district heating and cooling by at least 2.1 percentage points as an annual average calculated for the period 2021 to 2025 and for the period 2026 to 2030, starting from the share of energy from renewable sources and from waste heat and cold in district heating and cooling in 2020, and shall lay down the measures necessary to that end. The share of renewable energy shall be expressed in terms of share of gross final energy consumption in district heating and cooling adjusted to normal average climatic conditions.*

Member States with a share of energy from renewable sources and from waste heat and cold in district heating and cooling above 60 % may count any such share as fulfilling the average annual increase referred to in the first subparagraph.

*Member States shall lay down the necessary measures, **including fiscal instruments**, to implement the average annual increase referred to in the first subparagraph in their integrated national energy and climate plans pursuant to Annex I to Regulation (EU) 2018/1999.'*

Art. 24 (4a) Third party renewable integration

Position

With regard to the possible potential of external heat sources to facilitate the decarbonisation of district heating networks, AGFW wishes to clarify that the sectors current market practice already foresees the incorporation of such sources wherever possible. What hampers further integration of external renewable sources besides a general lack of availability are regulatory barriers within existing national legislative ramifications. AGFW therefore advocates in favor of a more supportive regulatory framework that focuses on enablement rather than enforcement as the primary means to promote renewable integration.

Proposal

Member States shall ~~ensure that support~~ operators of district heating or cooling systems above 25 MW_{th} capacity ~~are obliged to connect third party suppliers of energy from renewable sources and from waste heat and cold or are obliged~~ to offer to connect and purchase heat or cold from renewable sources and from waste heat and cold from third-party suppliers based on non-discriminatory criteria ~~set by the competent authority of the Member State concerned~~, where such operators need to do one or more of the following:

- (a) meet demand from new customers;
- (b) replace existing heat or cold generation capacity;
- (c) *expand existing heat or cold generation capacity.*;

Member States shall introduce necessary measures - including fiscal measures - to support the integration of external renewable heat sources.

Art. 24 5) Third party renewable integration – technical requirements

Position

AGFW strongly advocates for a clear conjunction between any possible obligation for third party integration and the assessment of the underlining technical requirements. Paragraph 5) should therefore likewise be subject to mandatory implementation by Member States in its entirety. Moreover, the very limited capacity of external renewable heat sources should be deployed in the most efficient manner. Therefore, district heating networks which are projected to meet the standard of efficient district heating according to a certified transformation plan should be excluded from the proposed obligation to integrate third party renewable heat.

Proposal

5. Member States ~~may~~ **shall** allow an operator of a district heating or cooling system to refuse to connect and to purchase heat or cold from a third-party supplier in any of the following situations:

- (a) *the system lacks the necessary capacity due to other supplies of heat or cold from renewable sources or of waste heat and cold;*
- (b) *the heat or cold from the third-party supplier does not meet the technical parameters necessary to connect and ensure the reliable and safe operation of the district heating and cooling system;*
- (c) *the operator can demonstrate that providing access would lead to an excessive heat or cold cost increase for final customers compared to the cost of using the main local heat or cold supply with which the renewable source or waste heat and cold would compete;*
- (d) *the operator's system meets or **is expected to meet** the definition of efficient district heating and cooling set out in [Article x of the proposed recast of the Energy Efficiency Directive] **as part of a published transformation plan approved by a competent national authority.***

Member States shall ensure that, when an operator of a district heating or cooling system refuses to connect a supplier of heating or cooling pursuant to the first subparagraph, information on the reasons for the refusal, as well as the conditions to be met ~~and measures to be taken~~ in the system in order to enable the connection, is provided by that operator to the competent authority. Member States shall ensure that an appropriate process is in place to remedy unjustified refusals.

Art. 24 6) Waste heat integration framework

Position

AGFW strongly supports the Commissions efforts to improve the existing regulatory environment for the further integration of waste heat that can be recovered on an economically viable basis. In this regard AGFW advocates in favor of a more stringent framework that also explicitly addresses existing market barriers and funding gaps through targeted support measures and public financing.

Proposal

6. Member States shall put in place a **coordination supporting** framework ~~between for~~ district heating and cooling system operators and the potential sources of waste heat and cold in the industrial and tertiary sectors to facilitate the use of waste heat and cold. That ~~coordination~~ framework shall ensure ~~dialogue~~ cooperation as regards the use of waste heat and cold involving at least:

(a) district heating and cooling system operators;

(b) industrial and tertiary sector enterprises **providing or** generating waste heat and cold that can be economically recovered via district heating and cooling systems, such as data centres, industrial plants, large commercial buildings and public transport; and

(c) local authorities responsible for planning and approving energy infrastructures.'

Art. 24 (8) DSO and TSO assessment framework

Position

AGFW wishes to advocate in favor of stronger embedding of the *utilization instead of curtailment*-principle as part of the future assessment formula that fully appreciates the potential of heating and cooling networks as backbones of an integrated energy system.

Proposal

Member States shall establish a framework under which electricity distribution system operators will assess, at least every four years, in cooperation with the operators of district heating and cooling systems in their respective areas, the potential for district heating and cooling systems to provide balancing and other system services, including demand response and thermal storage **and thermal utilization** of excess electricity from renewable sources **following the principle of utilization instead of curtailment**, and whether the use of the identified potential would be more resource- and cost-efficient than alternative solutions.

Art. 29 10) Greenhouse gas emissions saving criteria for biofuels, bioliquids and biomass fuels

Position

Biomass is an important energy source for decarbonizing district heating and cooling. To prevent threatening the economic viability of existing plants by a minimum GHG reduction, appropriate levels or a sufficient transition period are necessary. Otherwise, plants are at risk of being decommissioned, which would lead to an increase of GHG emissions.

To simplify the certification process, further standard values for GHG reduction should be defined in the RED, e.g. for post-consumer wood waste.

Proposal

'(d) at least **60** ~~70~~ % for electricity, heating and cooling production from biomass fuels used in installations **in operation on or before** 31 December ~~2025, and at least 80 % 2020~~, **applicable** from 1 January 2026;

Contact

Sören Damm LLM
European Affairs Advisor
+49 69 6304-219
s.damm@agfw.de

Publisher:

AGFW | Der Energieeffizienzverband für Wärme, Kälte und KWK e.V.

Stresemannallee 30, D-60596, Frankfurt am Main
Postfach 70 01 08, D-60551, Frankfurt am Main

Anschrift Büro Berlin:
Schumannstraße 2, D-10117, Berlin-Mitte

Telefon: +49 69 6304-1
Fax: +49 69 6304-391
E-Mail: info@agfw.de
Internet: www.agfw.de

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