

State Aid CEDEC response to Consultation Paper

State Aid for energy infrastructure:

CEDEC believes that a focus on facilitating investments in smart grids, especially on distribution level, is a valuable addition to the current framework, and favors a consistency with other EU-Initiatives which address the same issues.

It is estimated by the International Energy Agency that needed investments into the European distribution grids will amount to €480billion by 2035¹. In a recent study on smart grids by the European Parliament, it was stated that ca. 70% of all investments in smart distribution grids² will be borne by distribution system operators (DSOs). **Eligibility for state aid with reasonable criteria could therefore significantly lower the investment risks for the mostly small-and medium-sized DSOs in Europe.**

Smart grids are crucial instruments for the large-scale integration of variable and decentralised renewable energy and have a proven positive impact on energy efficiency. Furthermore, they increase security of supply and system integrity by matching demand and supply of energy in increasingly complex systems. It is proven that adding innovative technologies to the grid is more cost-effective than traditional infrastructure extension. At the same time, smart grids provide a variety of benefits to many market players (ESCOs, aggregators, suppliers) by creating downstream markets for new entrants and established players, while the investments are largely carried by DSOs. **Hence, the possibility for state aid under the EAG is welcomed to facilitate the deployment of smart grids by lowering the investment burden.**

CEDEC therefore underlines, that a focus should not only lie on infrastructure with a cross-border effect but also for projects with positive implication on security of supply on local and regional level. Due to the phenomenon of cascading effects, which may arise from installations at local level, even local grids can have an impact on cross-border issues. With increasingly decentralised generation units, upgrading and extension of local energy infrastructure at low- and medium-voltage level is indispensable. **Therefore, CEDEC believes that no stricter tests for infrastructure without cross-border benefit should be applied.**

CEDEC furthermore supports the general eligibility for state aid of demand-response programmes through incentivising active participation of consumers in their energy consumption and through innovative technologies such as for example electric vehicles.

¹ International Energy Agency, World Energy Outlook, 2010

² European Parliament, STOA, smart grids/energy grids final report, 2012

State Aid for renewable energy sources -- Technology neutrality:

In the absence of a level playing field between generation technologies and missing internalisation of external costs of technologies, **CEDEC does not support a technology-neutral approach to state aid for low-carbon technologies.**

While renewable energy technologies and energy efficiency in the European energy system have been identified as the *no regrets* options by policy-makers, our current energy system has been built around the needs of conventional energy technologies from centralised production units. Renewable energy and storage technologies still face many economic and non-economic barriers. In order to support and accelerate the transition towards a sustainable and import-independent energy supply from renewable energy, well-targeted and technology-specific support is needed to overcome the current inherent market-failures.

Prices for some RES technologies have come down considerably over the last years and make them nearly competitive. However, as non-economic barriers for RES remain and some other promising technologies are still in early development stages, **Member States shall also in the future be allowed to develop technology- and segment-specific support schemes for i.e. R&D, deployment and grid integration to arrive at a technology-diversification which allows to exploit all resources available to them.**

Especially with increasing generation at local and regional level, a well-balanced technology –mix of renewable technologies is needed in order to ensure grid and system stability, and to ensure security of supply at all times. The feed-in from wind energy and photovoltaic installations need to be complemented with distributed generation from other technologies such as biomass, geothermal and hydropower, and with storage facilities. To arrive at technology diversification enhancing system stability, all renewable technologies - not only the currently most competitive ones - need to be further developed, introduced to the market and therefore receive specific support.

State Aid for CHP and district heating

CHP and district heating technology form an important part of the solution aimed at achieving the targets of the European strategy in the areas of energy and the climate. As was determined in the recently adopted Energy Efficiency Directive: *"High-efficiency cogeneration and district heating and cooling has significant potential for saving primary energy, which is largely untapped in the Union."*

Cogeneration plants meet the demand for district heating and therefore make a considerable contribution to reducing the emission of gases such as CO₂, SO_x and NO_x, as well as the concentration of fine dust particles. The amount of primary energy consumed can be reduced significantly by co-generation of heat and power. CHP plants are also an indispensable part of safeguarding the security of supply.

a. Thresholds for operating aid

On the basis of the current guidelines for environmental state aid, it is *de facto* impossible to secure operating aid for facilities over 200 MW due to the subjective thresholds for comprehensive assessments of operating aid, associated with an individual notification (see below).

The threshold value of 200 MW for co-generation plants to receive operating aid under the current guidelines contradicts the principles of granting aid and is not comprehensible. While the output volume is drawn on for the purposes of individual notification in the case of operating aid, the monetary amount of state aid plays no role. In addition the capacity of a CHP plant has no influence on its efficiency and therefore environmental benefit.

In order to resolve this contradiction, aid measures related to CHP in general should not require a detailed assessment regardless of any threshold.

b. Simplification of the assessment

The Issue Paper correctly asserts, under Point 27, that the assessment procedure for the counterfactual scenario is complex. According to the existing provisions of current Guidelines, it can be assumed that a change in behaviour in plants that are already in operation would only be possible if the company first makes an official decision to shut down the existing co-generation plant with corresponding negative operating results and to meet the demand for energy with boilers (no co-generation) and condensation power plants or by buying-in electricity. Only then would it be possible for the company to receive environmental aid to 'reinstate' or 'not shut down' co-generation plant.

The co-generation plants are, after all, already in operation. It is therefore particularly problematic to demonstrate the incentive effect (for operating aid) retrospectively, as this is virtually impossible to achieve. **CEDEC therefore proposes dispensing with the requirement to provide retrospective evidence of the incentive effect, notably with regard to operating aid, or at least to redefine 'change in behaviour' and 'counter-factual situation' as described below.**

It should be sufficient for the incentive effect of aid to induce the beneficiary to implement or maintain activities that would not have been done without the aid, as rightly stated by the European Commission in paragraph 12 of its communication COM (2012) 209. Objectively verifiable calculations based on publicly available market data should be sufficient as proof. The obligation to pass official company decisions – such as to decommission co-generation plants – would be subjective, as illustrated above.

The counterfactual situation should be redefined due to the formulation of reference scenarios. When determining reference scenarios to operate co-generation plants in particular, it is not enough to focus on '*new investments*'. The illustration of compulsory business decision-making processes should suffice with objective, transparent calculations, based on publically available market data.