EUROMOT

The European Association of Internal Combustion Engine Manufacturers

EUROMOT POSITION

REVISION OF EU CLIMATE, ENERGY AND ENVIRONMENTAL AID GUIDELINES (CEEAG)

09 July 2021

1. General background

Competition policy, and State aid rules in particular, have an important role to play in helping the EU achieve its Green and decarbonization policy targets. The European Commission's communication on "*The European Green Deal*" specifically indicates that the State aid rules (including Climate, Energy and Environmental Aid Guidelines – CEEAGs) will be revised by 2021 to reflect those policy objectives, amongst which to support a cost-effective and just transition to climate neutrality and to facilitate the phasing out of the most polluting fossil fuels such as coal, while at the same time ensuring a level-playing field in the internal market. To achieve the ambition set out in the Green Deal Communication, significant investments, including in renewable energy sources will be required.

The following measures mentioned in the draft revised CEEAGs currently under consultation are relevant to the sector of flexible reciprocating power plants:

- **Aid for the reduction and removal of greenhouse gas emissions, including support for renewable energy**;
- Aid for the prevention or reduction of pollution other than from greenhouse gases;
- **Aid for the security of electricity supply**;
- **Aid for energy infrastructure**;
- Aid for district heating and cooling.

In this position paper EUROMOT would like to focus on the 3 abovementioned measures in bold.

Chapter 3 of the draft revised CEEAGs sets out the compatibility criteria that apply generally to the various categories of aid covered in the document. Chapter 4 sets out specific compatibility criteria that apply to the aid measures covered by the various sections of that chapter. The compatibility

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criteria in Chapter 3 apply unless there are more specific provisions laid down in the dedicated specific sections in Chapter 4.

As stated in paragraph 20, "*the Commission may consider compatible with the internal market State aid to facilitate the development of certain economic activities within the Union (**positive condition**), where such aid does not adversely affect trading conditions to an extent contrary to the common interest (**negative condition**)*".

Chapter 3.1 provides details on the "positive condition" aspect such as:

- Paragraph 23: "*Aid to **prevent or reduce** the negative effects of economic activities on climate or the environment can facilitate the development of economic activities **by increasing the sustainability of the economic activity concerned**. The aid can also ensure that the activity can continue in the future without creating unacceptable environmental damage […]* ".
- Paragraph 24: "***Member States must also describe if and how the aid will contribute to the achievement of objectives of Union climate policy, environmental policy and energy policy** and more specifically, the expected benefits of the aid in terms of its material contribution to environmental protection, including climate change mitigation, or the efficient functioning of the internal energy market* ".

Chapter 3.2 provides details on the "negative condition" aspect. In particular see paragraph 65: " […] *These distortive effects can be particularly important when the aid is granted to projects that provide a limited transitory benefit but lock out cleaner technologies for a longer term, including those necessary to achieve the medium-term and long-term climate targets enshrined under the European Climate Law. This can, for example, be the case for support to certain activities using fossil fuels that provide an immediate reduction of green house gas emissions, but lead to slower emissions reductions in the long term. […]* ***The Commission will therefore take into account these possible short and long term negative effects on competition and trade in its assessment*** ".

Chapter 3.3 is about "*Weighing the positive effects of the aid against the negative effects on competition and* trade", e.g.:

- Paragraph 68: "*As a final step, the Commission will balance the identified negative effects on competition and trading conditions of the aid measure with the positive effects of the planned aid on the supported economic activities, including its contribution to environmental protection and objectives of energy policy and, **more particularly, to transition towards environmentally sustainable activities and to the achievement of the legally binding targets under the European Climate Law*** ".
- Paragraph 71: "*Measures that directly or indirectly involve support to fossil fuels, in particular the most polluting fossil fuels, are unlikely to create positive environmental effects and often have important negative effects because they can increase the negative environmental externalities in the market. The same applies for **measures involving new investments in natural gas, unless it is demonstrated that there is no lock-in effect** […]*".

In below chapter 2 of this position paper the specificities of modern gas-fired reciprocating engine power plants are described, as well as their roles in contributing to the EU climate and energy objectives.

In below chapter 3 some of the proposed categories of aid are analyzed. Finally, the chapter also contains a few **EUROMOT suggestions to modify the draft revised CEEAGs**, in keeping with the arguments raised in chapter 2.

2. The grid-stabilizing and renewable-enabling role of modern gas-fired power plants

An article published in the *Financial Times* on 6th October 2020 rightly underlines the importance of make full use of already viable technologies enabling a fast cost-effective decarbonization coupled with access to a secure, affordable and sustainable energy system: "*Experts say a focus on futuristic solutions distracts from the* ***ability of the energy sector to significantly decarbonise power production by using readily available technology and ramping up the deployment of*** *renewables*".

In keeping with this principle, which EUROMOT fully supports, **the revised EU CEEAGs should thus acknowledge the grid-stabilizing and renewable-enabling role of modern gas-fired engine power plants**: this would, in turn, enable the EU to **accelerate the decarbonization of its energy grid** in a fast, efficient and cost-effective way.

As underlined in a presentation of the EU Platform on Sustainable Finance (slide 20), relevant existing decarbonization scenarios (used as "*scientific evidence*") seem to rely on **reduction targets of the GHG (Green House Gas) emissions intensity of the whole EU electric grid** (and not of individual plants, as the Taxonomy regulatory framework indicates).

Large-scale electrification will make the society and economy increasingly depending on an uninterrupted electric power supply. With a substantial fraction of electricity coming from solar panels and wind turbines, it is of crucial importance that the power grid stays stable with a maximum reliability. Batteries alone cannot fulfil (having a storage capacity of only "hours": see here) the function of enabling by-nature fluctuating renewable power sources. On the other hand, **gas-fired grid- balancing internal combustion (reciprocating) engine plants make possible**, thanks to their ability for rapid start-up, response to varying demand, and fast shut down, as well as to their multifuel capability, the **step-by-step integration of intermittent renewables (solar, wind) in the electricity grid**: they **are only operated in case of deficit** of such intermittent renewables in the electricity grid. This contributes to fundamental key policy objectives of the whole EU Energy Union, such as: increased production and thus use of low-carbon electricity; replacement of fossil gas with decarbonised gas and fuels (via the production of Synthetic renewable-based 'Power-to-X' fuels); increased energy efficiency; ensuring access to secure, stable and affordable energy to EU citizens.

These principles have been the basis for EUROMOT's numerous public statements on the EU Taxonomy (here the most recent one, including references to older papers; here a recent paper prepared in cooperation with 13 other business associations representing the whole gas value chain).

3. Specific proposed categories of aid and EUROMOT proposals for amendments of the Draft revised CEEAGs

3.1. Category 4.1: "Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy"

Section 4.1.2 defines the "***Scope*"** of this category: Paragraph 74 - "*This Section lays down the compatibility rules for aid measures primarily aimed at reducing greenhouse gas emissions,* ***including aid for the production of renewable and low carbon energy, aid for energy efficiency including high-efficiency cogeneration****, aid for carbon capture, storage and use, and aid for the reduction or avoidance of emissions resulting from industrial processes. It also covers support for the removal of greenhouse gases from the environment. This Section does not apply to measures whose primary objective is not the reduction or removal of greenhouse gas emission. […] Paragraph 75 - This Section also covers dedicated infrastructure projects (including for hydrogen and other low-carbon gases, and as well as CCS/CCU) that do not fall under the definition of energy infrastructure.* "

As illustrated in chapter 2 above, modern grid-stabilizing renewable-enabling gas-fired reciprocating engine power plants do fulfill the function of ".. *support for renewable energy*" (aid category 4.1). Accordingly, EUROMOT asks for the following changes (in bold) to be implemented in the draft revised CEEAGs.

⇨ **EUROMOT proposal (in bold) for paragraph 74 in section 4.1.2:** "*This Section lays down the compatibility rules for aid measures primarily aimed at reducing greenhouse gas emissions, including aid for the production of renewable and low carbon energy, aid for energy efficiency including high-efficiency cogeneration, aid for carbon capture, storage and use,* ***aid for the integration of renewable energy in the electricity grid including via grid-stabilizing gas-fired power plants,*** *and aid for the reduction or avoidance of emissions resulting from industrial processes. It also covers support for the removal of greenhouse gases from the environment. This Section does not apply to measures whose primary objective is not the reduction or removal of greenhouse gas emission* ***or the production and integration of renewable energy in the grid****[…].*"

Such a proposal would be consistent with a number of points in chapter 3 of the draft revised CEEAGs (general compatibility criteria), listed above in chapter 1 of this position paper: paragraphs 23, 24, 68 and 71.

3.2. Category 4.8: "Aid for the security of electricity supply"

Paragraph 284 on the "***Rationale*** *for the aid*" states: "*Market and regulatory failures may mean price signals fail to provide efficient investment incentives, leading for instance to inadequate electricity resource mix, capacity, flexibility or location. Moreover,* ***the significant transformation in the electricity sector due to technological change and climate challenges raises new challenges for ensuring the security of electricity supply****. […] Member States may consider the introduction of measures to ensure certain levels of security of electricity supply*. "

Paragraphs 285 and 286 define the "***Scope*****"** of this category: paragraph 285 - "*This Section covers compatibility rules for* ***aid measures aimed at increasing the security of electricity supply****. This includes capacity mechanisms and* ***interruptibility schemes for dealing with long and short-term security of supply issues*** *resulting from market failures preventing sufficient investment in electricity generation capacity, storage or demand response, as well as network reserves which aim to treat the insufficiency of electricity transmission and distribution networks" and paragraph 286 – "Such measures may also be* ***designed to support environmental protection objectives****, for example through the exclusion of more polluting capacity or measures to give more environmentally beneficial capacity an advantage in the selection process* ".

Paragraphs 302 and 303 define the **"*Eligibility*"** of state aid for category 4.8: Paragraph 302 - "*The aid measure should be open to all beneficiaries or* ***projects technically capable of contributing efficiently to the achievement of the security of supply objective. This includes generation****, storage and demand response, as well as the aggregation of small units of these forms of capacity into larger blocks." and paragraph 303 - "Limitations on participation in security of supply measures that aim to ensure those measures* ***do not undermine environmental protection are deemed appropriate (***see paragraphs 325 and 326*)*".

- Paragraph 325: "*The Commission considers that certain aid measures have negative effects on competition and trade that are unlikely to be offset. […] For instance, measures – including network reserves and interruptibility schemes – that do not respect the emissions threshold applicable to capacity mechanisms set out in Article 22 of Regulation (EU) 2019/943 and that may incentivise new investments in energy based on the most polluting fossil fuels, such as coal, diesel, lignite, oil, peat and oil shale increase the negative environmental externalities in the market* ".

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- Paragraph 326: "*Measures that incentivise new investments in energy generation based on natural gas may support security of electricity supply but aggravate negative environmental externalities in the longer term, compared to alternative investments in non-emitting technologies. To enable the Commission to verify that the negative effects of such measures can be offset by positive effects in the balancing test,* ***Member States should explain how they will ensure that such investment contributes to achieving the Union's 2030 climate target and 2050 climate neutrality target****. In particular, the Member States should explain* ***how a lock-in of this gas-fired energy generation will be avoided****. For example, this may include binding commitments by the beneficiary to implement decarbonisation technologies such as CCS/CCU or substitute natural gas by renewable or low carbon gas or to close the plant on a timeline consistent with the Union's climate targets*".

Considering these paragraphs in category 4.8, and the arguments on the grid-stabilizing and renewable-enabling role of modern gas-fired reciprocating engine power plants illustrated in above chapter 2, it can be concluded the following:

- State aid for natural gas-fired grid-stabilizing engine plants would be fully coherent with the rationale and the scope of category 4.8;
- It would also fulfill the "*negative condition offsets"* described in paragraphs 325 and 326:
  - Modern plants generally fulfill the emission threshold set out in Article 22 of Regulation (EU) 2019/943.
  - Such investments would contribute to achieving the EU's 2030 and 2050 climate target as they make possible a rapid integration of variable renewable electricity in the grid. Moreover, carbon lock-in would be avoided as modern reciprocating engine plants are more and more able to operate on renewable and low-carbon gases.
- However, references to grid-stabilizing plants should be made more explicit.

⇨ **EUROMOT proposal (in bold) for paragraph 286**: "*Such measures may also be designed to support environmental protection objectives, for example through the exclusion of more polluting capacity, measures to give more environmentally beneficial capacity an advantage in the selection process* ***or measures to facilitate the integration of intermittent renewable energy in the electricity grid*** ".

⇨ **EUROMOT proposal (in bold) for paragraph 326:** "*Measures that incentivise new investments in energy generation based on natural gas may support security of electricity supply but aggravate negative environmental externalities in the longer term, compared to alternative investments in non-emitting technologies. To enable the Commission to verify that the negative effects of such measures can be offset by positive effects in the balancing test, Member States should explain how they will ensure that such investment contributes to achieving the Union's 2030 climate target and 2050 climate neutrality target.* ***For example, this may include commitments to provide evidence that natural gas-fired power generation only operates in case of a deficit of intermittent renewable electricity, thus stabilizing the grid and facilitating the integration of renewable electricity.*** *In particular, the Member States should explain how a lock-in of this gas-fired energy generation will be avoided. For example, this may include binding commitments by the beneficiary to implement decarbonisation technologies such as CCS/CCU or substitute natural gas by renewable or low carbon gas or to close the plant on a timeline consistent with the Union's climate targets*".

3.3. Category 4.9: "Aid for energy infrastructure"

Paragraph 328 defines the "***Rationale*** *for the aid*": "*In order to meet the Union's climate targets, significant investment and upgrading of energy infrastructure will be required. A modern energy infrastructure is crucial for an integrated energy market that meets climate targets while ensuring security of supply of in the Union. Adequate energy infrastructure is a necessary element of an efficient energy market.* ***Improving energy infrastructure enhances system stability, resource adequacy, integration of different energy sources and energy supply in under-developed networks***".

Modern grid-stabilizing gas-fired reciprocating engine power plants are fully consistent with such a rationale, and aid to such plants might be considered under category 4.9. To this end, an amendment to the definition of "energy infrastructure" in chapter 2.4 paragraph 18 point 35 is needed:

- ⇨ **EUROMOT proposal (in bold) for paragraph 18 point 35:** "*'energy infrastructure' means any physical equipment or facility which is located within the Union or linking the Union to one or more third countries and falling under the following categories:*

  (a) concerning electricity:

  (….)

  [new sub-point vi]: grid-stabilizing and renewable-enabling gas-fired engine power plants, only operating in case of a deficit of intermittent renewable electricity, thus stabilizing the grid and facilitating the integration of renewable electricity"

- ⇨ **EUROMOT proposal (in bold) for paragraph 339.c (on *avoiding undue negative effects for category 4.9*):** "*In addition to the approach above outlined, the Commission considers that for natural gas infrastructure investments, the positive effects on competition manifestly outweigh its negative effects on competition where the resulting infrastructure is fit for use for hydrogen and renewable gases or fuels of non-biological origin. Where this is not the case, in order to off-set the negative effects on competition, the Member State concerned needs to demonstrate the following: (i) why it is not possible to design the project so that it is fit for use for hydrogen and renewable gases or fuel of non-biological origin; (ii) why the project does not create a lock-in effect for the use of natural gas****: for example, this may include binding commitments by the beneficiary to substitute natural gas by renewable or low carbon gas****; and (iii) how the investment contributes to achieving the Union's 2030 climate target and 2050 climate neutrality target****: for example, this may include commitments to provide evidence that natural gas-fired power generation only operates in case of a deficit of intermittent renewable electricity, thus stabilizing the grid and facilitating the integration of renewable electricity*** ".

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