

Policy and communications

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## Comments to draft Guidelines on State aid for climate, environmental protection and energy (CEEAG) 2022

### About Swedenergy

Swedenergy is a Swedish association for about 400 energy companies producing, distributing, selling and storing energy. Our aim is from knowledge, a holistic approach on the energy system and in collaboration with our surrounding environment develop the energy sector – to the benefit for all.

Swedenergy would like to comment the draft guidelines on state aid for climate, environmental protection and energy (CEEAG) in the following parts.

### 4.1 Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy

#### General comments

Swedenergy note it will require huge investments in both energy production and energy infrastructure the coming years to achieve the Green Deal aims and the set climate goals. The state-aid guidelines have in this context a central role in shaping the conditions for both a rapid energy transition and at the same time maintain well-functioning competition on the energy markets.

In general, we consider that policies and support schemes to achieve the energy and climate goals must be designed from a holistic view that balance the overarching energy policy goals on security of supply, competition, and sustainability. It is important that the state-aid guidelines contribute to coordinated policies that can achieve higher cost-efficiency and socio-economic efficiency at the same time as it is easy for customers and producers to relate and adapt to the rules and policies.

Policies and support schemes must have a stated and specific purpose to make it possible to follow-up and evaluate the support efficiency and to determine when and in which pace the support can be phased-out. Support schemes and subsidies may be motivated for new and unestablished technologies in a market-introduction phase but they have to be designed from actual support need that is regularly followed-up. To have transparent criteria for phasing out support schemes is also important for investors so they can adapt their decisions from those conditions. Subsidies which are not phased out when objectives are met risk to have unnecessary market impact and lead to high costs for taxpayers and customers. To have criteria for phase-out are not possible for all policy measures but should mainly be present for direct support schemes. Broad and longterm

policies that aims to set a price on externalities should be maintained in foreseeable future.

In an open and integrated market, it is important that all actors can act on equal conditions. It is important that taxation and subsidies do not contribute to a distortion between actors and productions methods, that new investments are not harmed and that also affirm the demand side contribution.

Swedenergy is positive to Sweden's and EU's longterm goals on reduced climate impact, efficient energy use, increased share of renewable energy and the set energy and climate goals for 2030-2045.

EU ETS should be the primary tool to decrease the emissions in the trading sector because it is a cost-efficient and market-based system for decreasing the emissions. Other policy instruments to reduce emissions should primarily focus on the non-trading sector. It is important to safeguard common policy instruments within EU and globally in the climate policy. Double measures should be avoided since it means the policy effects decreases. Double national measures in for example the trading sector means increased costs for national plants and affects normally to a little extent the total emissions within EU.

**P. 48-49, 92** We consider in generally it is positive with rules on bidding processes to steer towards cost-efficient support schemes. However, it is motivated of administrative reasons to have capacity thresholds and we support the proposed capacity limit on 400 kW in p. 92 which is in line with the Electricity Market Regulation (2019/943) and could limit the distortion on the competition in relation to large-scale electricity suppliers.

**P. 95-96** Swedenergy consider it is a necessity to have better conditions for handling energy and carbon tax exemptions for biofuels, both for transport and heating purposes. For Sweden with very high energy and carbon taxes on fossil fuels the main instrument for promoting the use of biofuels is tax exemptions.

In p. 96 it is important that in productions costs also include costs for fulfilling policy regulations such as sustainability criterias for bioenergy.

#### 4.1.3.4

It is motivated with consultation requirements for larger support schemes, but it is important that well-motivated schemes are not delayed by unnecessarily lengthy and detailed consultation procedure that delays the conditions for achieving the climate policy objectives for 2030 and 2050.

### Bioenergy

#### **P. 77**

Point 77 limits the use of biomass for energy purposes and limits further the use of biomass according to art. 26 in the Renewables Directive in an inappropriate way. Swedenergy considers that it must be possible to use heating fuels from crop-based biofuels that must be able to achieve full energy and carbon tax exemption without any further limitations than the sustainability and GHG criteria in the Renewables Directive.

For Sweden it is a necessity for a phasing out the last percentage of fossil fuels in the heating sector to be able to have full energy and carbon tax exemption for the crop-based light biofuels. Such tax exemption is also a necessity to be able to fulfil the climate roadmap for the Swedish heating sector before 2030 without unreasonably high costs. If the state-aid rules limits the use of crop-based biofuels for heating purposes that also means a large capital destruction in existing peak-load boilers using fossil oil (that could be converted to light biofuels) and a delayed phase-out of fossil fuels, contrary to Green Deal objectives.

Since DG COMP forced Sweden to introduce full energy and carbon tax for biofuels used for heating from 1 January 2021 with reference to present EEAG state-aid guidelines it has led to increased use of fossil fuels in Swedish heating production plants. Furthermore the biofuels tax has led to a decreased electricity production in Swedish combined heat and power plants (CHP plants) the coldest winter weeks in February since it was too expensive to use the peakload boilers for heating production which means CHP plants have prioritised heating production instead of electricity production, leading to decreased system stability in the electricity system. With reference to this situation, we urge to introduce rules in CEEAG that create conditions for full energy and carbon tax exemption for all biofuels and bioenergy used for heating purposes.

#### **P. 107**

In point 107 it is proposed a comparison where biomass is considered as a fossil fuel, which we consider is unacceptable considering the huge role biomass have in the transition from fossil fuels in the heating, industry and transport sectors. Swedenergy considers that bioenergy must be equally treated with other renewable energy sources and that no extra rules should be introduced in addition to sustainability and emission criteria set in the Renewables Directive mentioned in p. 76. We also consider it is unacceptable with references that in practice equate bioenergy with fossil fuels.

Regarding electricity production the text should refer to the regulations on the common market for electricity in EU, 2019/943 and 2019/944. Furthermore it has to be considered that CHP plants are active on two markets, the electricity and the district heating markets, and also have an important role locally and regionally for system stability in the electricity system. The proposed rules risk to be very hard to administrate, and not in an efficient way contribute to sector-coupling since the tax structure is completely different between electricity and district heating production. Electricity is taxed in the consumption stage and district heating production in the production stage. Also, for example industrial processes that is supplied with steam from CHP units with long ramp-up and ramp-down times could be affected if such as tax exemption could not be acceptable in hours with negative electricity prices. That means that efficient operation is hindered in situations with a few hours with negative electricity prices.

Vi propose following changes: *To avoid undermining the objective of the measure or other Union environmental protection objectives, incentives must not be provided for the generation of energy that would displace less polluting forms of energy. For example, where cogeneration based on non-renewable sources is supported, ~~or where biomass is supported,~~ they must not receive incentives to*

*generate electricity ~~or heat~~ at times when this would mean zero air pollution renewable energy sources would be curtailed.'*

## 4.2 Buildings

We consider state-aid guidelines should be restrictive concerning investments in mature energy technologies to not disturb the competition on the energy markets, also when energy production units are constructed on or close to buildings. State-aid guidelines should also be competition-neutral to mature energy technologies where the same conditions should apply regardless if an investment is made on a building or in another part of the energy system.

In principal we consider that for existing building there should not be relevant to give support to either energy production units in the building or for common systems such as district heating where there already are existing market conditions and competition in the heating and energy markets.

## 4.3 Aid for clean mobility

### P. 182

We consider it is important with good conditions to support a rapid development of charging infrastructure to create the conditions for an electrification of the vehicle fleet. In point 182, we suggest an increased possible aid support level from 40 to 50 per cent which is line with present Swedish national support regulation in the "Climate Leap" (SFS 2015:517) and that the possible extra support level for renewable energy is abolished in this context.

We question the need of a higher support level for small and medium-sized enterprises in this field since it negatively might impact the competition on the market.

We also consider there is a need of a higher support level than 10-15 per cent in extra support proposed for regional aid, where we consider there are remote and sparsely populated areas where the need could be up to 100 per cent. In those cases, also support for operation and maintenance could be needed to enable a development of charging infrastructure in sparsely populated areas.

## 4.8 Aid for the security of electricity supply

### P. 284.

It is important to stress, that the necessity of aid motivated for security of supply, is not due to market failure, as it is the predictable crowding-out effect of subsidies to RES. Furthermore, the target model for the internal electricity market is an energy market, hence, it will not by necessity provide services essential for stabilizing the power system. Also, according to the rules of unbundling, as grid companies, the system operators are not allowed to trade in the energy markets. The logic of this, is that to fulfil their tasks, the system operators might have to procure necessary services outside of the regular electricity market, but this does not necessarily require state aid as it could be financed by tariffs. However, what we now see is a demand for state aid due to previously less thought through schemes of state aid. At it's best, security of supply will be upheld, although to a greater costs for the consumers of electricity.

Of course, a procurement by the system operators might have some impact on the electricity market, but this would be in analogue with e.g. PPAs. Whereas the system operators buy “ancillary” services, the buyers of a PPA are in demand of the environmental value of the electricity generation.

**P. 285.**

As the criteria for security of supply is stated elsewhere, e.g by the reliability standard in the Electricity Regulation (2019/943) and the (N-1) criterion in the guideline on electricity transmission system operation (2017/1485), the aim cannot be increasing the security of electricity supply, rather to safeguard the possibilities for the Transmission System Operators to maintain the desired level of security of supply.

**P. 286.**

The efficiency in using one measure to try to achieve multiple goals is questionable. Detailed regulation carries the risk of hampering innovation, increasing the cost of the consumers. Also, extra measures, as special regulation or subsidies, undermines the main tool towards fossil free electricity generation, i.e. the EU-ETS.

**P. 287.**

It should be noted that the introduction of economic aid not seldom will have a negative economic impact on already existing facilities/activities as well as planned future investments. In some cases, this could be detrimental to the purpose of the introduction of aid, i.e. the possibility to uphold security of supply in a cost efficient manner.

**P. 299.**

Consequences of subsidy schemes should also be acknowledged as this will have an impact on the profitability of already existing facilities/activities as well as planned future investments.

Furthermore, also consequences due to existing regulation should be acknowledged, e.g. the guideline on electricity balancing (2017/2195) which limits the possibilities to secure balancing capability for longer periods.

**P. 304.**

See 286 above.

#### 4.10 Aid for district heating or cooling

**P. 342**

We also consider “power-to-heat”-installations in district heating should be included to take care of electricity supply surplus situations and other investments that contributes to sector-coupling. We propose following amendments: “Such aid measures typically cover the construction or upgrade of the generation unit to use renewable energy, waste heat, or highly efficient cogeneration ***or including*** thermal storage solutions, ***power-to-heat solutions*** or the upgrade of the distribution network to reduce losses and increase efficiency, including through smart and digital solutions.”

**P. 343**

The text should clarify that systems should comply to levels for efficient DHC systems in EU’s Energy Efficiency Directive (2012/27/EU), EED art. 2.41, instead of referring to ‘energy efficiency standard’. The text could also refer to transition commitments made by a district heating operator.

**P. 347**

To enable support for district heating and cooling infrastructure is desirable but the proposed rules mean limitations that are not climate policy motivated and should include the use of waste heat and other climate-neutral energy sources. We also consider that possible support to district heating and cooling infrastructure should be closer connected to if there are transition plans to convert from or phase out fossil fuels.

We propose the following changes:

- a/ the support is limited to ~~the upgrade of~~ the distribution network;
- b/ the distribution network is or will become fit for the transport of heat or cooling generated from renewable energy sources, **waste heat or other climate-neutral sources**;
- c/ the investment does not result in increased generation of energy from the most polluting fossil fuels (for example, by connecting additional customers) **in the longer run. Any temporary increase in generation from the most polluting fuels must be part of and consistent with the overall decarbonisation commitment of the operator and related investment plan in line with the 2030 climate target and the 2050 climate-neutrality objective as referred to in (d)**;
- d/there is a clear timeline involving firm commitments **from the beneficiary of the aid** for transitioning away from the most polluting fossil fuels, compatible with the Union's 2030 climate target and the 2050 climate neutrality target.

## Definitions

**P. 28**

We consider that the definition should refer to the definition of district heating and cooling in EU's Renewables Directive since it is this Directive that is primarily dealing with specific rules on district heating and cooling instead of Energy Performance of Buildings Directive: *'district heating' or 'district cooling' means district heating or district cooling, as defined in Article 2, point (19), of Directive (EU) ~~2018/2010~~ 2010/31*;

## Nuclear power

**P. 12.** We consider in principal that the same conditions should apply for all fossil-free energy solutions, including nuclear energy, about the conditions for support or subsidies. We interpret those conditions for possible support to nuclear power primarily is treated in the frame of the Euratom Treaty and the general state-aid rules according to 107.3 in the TFEU. It is desirable with clearer references to where the conditions for possible support to nuclear power is regulated.

## Taxonomy

We notice there are references in amongst other p. 69 and p. 113 to the Taxonomy Regulation (2020/852). We consider it is important to not have double rules in relation to the relevant sector regulation in the field of energy and environment and that the starting point should be that CEEAG refers to for example the sustainability criteria for bioenergy in the Renewables Directive. Any explicit references to the taxonomy rules should be avoided in CEEAG.

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