European Engine Power Plants Association

Consultation on the Proposed Draft Climate, Energy and Environmental Aid Guidelines (CEEAG)

EUGINE Contribution

July 2021

EUGINE, the European Engine Power Plants Association, welcomes the possibility to comment on the European Commission's Draft Climate, Energy and Environmental Aid Guidelines (CEEAG).

Gas power plants powered by engines are an optimal solution for both backing up and generating electricity from renewable sources. Cogeneration, the combined generation of power and heat, is another typical engine power plant application.

In a net-zero energy system, gas power plants will run on waste-based biogas and biomethane or hydrogen. They will balance the electricity sector through Power-to-X-to-Power and help the agricultural and waste sectors utilise biomethane that would otherwise escape into the atmosphere.

We therefore very much welcome that the Commission, in its draft guidelines, recognises the future value of gas power plants and their contribution to decarbonisation. We would nevertheless like to propose a number of adjustments to the proposed text, especially in what concerns the compatibility criteria for natural gas, the technology-neutrality of security of supply measures and references to the EU Taxonomy.

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Compatibility criteria for power generation with natural gas

The current draft guidelines require Member States to explain how a lock in of gas-fired energy generation or gas-fired production equipment will be avoided (points 110, 326, 348).

It is important to understand that gas-fired power generation is not bound to natural gas and that the technology is also capable of operating with renewable and decarbonised gases, including hydrogen. In other words, "gas" does not equal "natural gas"; which is why support to gas-fired power generation does not automatically lead to a carbon lock-in.

It would therefore be better, for the sake of clarity, specifying that the possible lock-in is connected to the use of natural gas only (in points 110, 326, 348):

> Member States must explain how they will ensure that the 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 or gas-fired production equipment into natural gas will be avoided.

Similarly, in point 134, it should be specified that the lock-in does not refer to technologies but to fuels:

> […]aid for the installation of natural gas-fired equipment may unduly distort competition where it displaces investments into cleaner alternatives that are already available on the market, or where it locks in certain fuels ~~technologies~~, hampering the wider development of a market for and the use of cleaner technologies and fuels.

The draft guidelines then give examples of how such a fuel lock-in to natural gas can be avoided. As stated above, gas-fired power generation is not bound to natural gas but is adapted to a specific gas quality at the point of commissioning. Therefore, any binding commitment to switch to renewable or low carbon gas will materialise in the technology chosen at the point of commissioning.

For example, today, equipment manufacturers are making their gas engines hydrogen-ready. New plants are being designed and built to operate with hydrogen or be prepared to be easily upgraded to a higher share whenever the hydrogen becomes available.

A hydrogen-readiness label will allow utilities and customers to decide for what hydrogen shares (up to 100%) the new plant shall be suited. Modifications for the use with a higher hydrogen level will be possible.

In the light of the above, we would suggest modifying the proposed wording as follows (in points 110, 326, 348):

> For example, this may include binding commitments ~~by the beneficiary~~ to install technology ready for the use with renewable and climate-neutral gases (for example, "hydrogen-ready" technology) and ensure the substitution of natural gas by renewable or low carbon gas, or 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.

Aid for the security of electricity supply (section 4.8.)

The published draft contains several paragraphs allowing Member States to reduce the participation or to exclude more "polluting technologies". While the need to limit support to climate-compliant technologies and fuels is welcome, this needs to be done based on clear criteria defined in existing legislation. Today, clear emission thresholds are set in Regulation 2019/943 on the internal market for electricity.

General references to "more polluting technologies" under the security of supply section go against the principle of technology neutrality and should be avoided.

Thanks to their technical capabilities, gas power plants are used to provide back-up (emergency) power or grid stability services. In those cases, their actual running hours are extremely low, and their total annual emissions will also be low. In addition, thanks to their very high flexibility, they act as a complement and not a replacement to variable renewable energy.

Therefore, we would suggest deleting point 286 and amending point 304 as follows:

> Member States ~~are encouraged to~~ can introduce additional criteria or features in their security of supply measures to promote the participation of greener technologies ~~(or reduce the participation of polluting technologies)~~ necessary to support the delivery of the Union's environmental protection objectives. Such additional criteria or features must be objective, transparent and non-discriminatory in relation to clearly identified environmental protection objectives and must not result in the overcompensation of beneficiaries.

Reference to the EU Taxonomy

Point 69 states "the Commission will pay particular attention to Article 3 of Regulation (EU) 2020/852 of the European Parliament and of the Council, including the 'do no significant harm' principle, or other comparable methodologies."

In addition, point 113 under section 4.1.4. "Avoidance of undue negative effects on competition and trade and balancing", states that "the Commission will typically find the balance for decarbonisation measures to be positive (that is to say, distortions to the internal market are outweighed by positive effects) in the light of their contribution to climate change mitigation […] as long as there are no obvious indications of non-compliance with the do no significant harm principle."

It is our view that the basis for the assessment of environmental impacts should be environmental standards, not a general principle set out in the EU Taxonomy Regulation. In addition, given that the delegated acts under the EU Taxonomy are still under development, it would be premature to link the revised Guidelines to the DNSH values found in them. Finally, given the fact that those delegated acts can be reviewed within relatively short timeframes and without going through a thorough political debate/screening, such a reference would provide uncertainty for Member States when designing their state aid schemes.

We would therefore advise against referring to the EU Taxonomy Regulation and the 'do no significant harm' principle in points 69 and 113 or in any other part of the text.

EUGINE is the voice of Europe's engine power plant industry. Our members are the leading European manufacturers of engine power plants and their key components.

Engine power plants are a flexible, efficient, reliable and sustainable technology, helping to ensure security of electricity supply and providing (renewable) electricity and heat.

For more information please see www.eugine.eu

Annex - Details of Suggested Modifications

Draft CEEAG	***Proposed Changes***
Section 4.1, Point 110: Similarly, measures that incentivise new investments in energy or industrial production based on natural gas may reduce greenhouse gas emissions and other pollutants in the short term but aggravate negative environmental externalities in the longer term, compared to alternative investments. For investments in natural gas to be seen as having positive environmental effects, Member States must explain how they will ensure that the 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 or gas-fired production equipment 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.	Similarly, measures that incentivise new investments in energy or industrial production based on natural gas may reduce greenhouse gas emissions and other pollutants in the short term but aggravate negative environmental externalities in the longer term, compared to alternative investments. For investments in natural gas to be seen as having positive environmental effects, Member States must explain how they will ensure that the 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 or gas-fired production equipment **into natural gas** will be avoided. For example, this may include binding commitments ~~by the beneficiary~~ **to install technology ready for the use with renewable and climate-neutral gases (for example, "hydrogen-ready" technology) and ensure the substitution of natural gas by renewable or low carbon gas, or** 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.
Section 4.2, Point 134 Measures that incentivise new investments in natural gas-fired equipment aimed at improving the energy efficiency of buildings may lead to a reduction in energy demand in the short run but aggravate negative environmental externalities in the longer run, compared to alternative investments. Moreover, aid for the installation of natural gas-fired equipment may unduly distort competition where it displaces investments into cleaner alternatives that are already available on the market, or where it locks in certain technologies, hampering the wider development of a market for and the use of cleaner technologies. The Commission	Measures that incentivise new investments in natural gas-fired equipment aimed at improving the energy efficiency of buildings may lead to a reduction in energy demand in the short run but aggravate negative environmental externalities in the longer run, compared to alternative investments. Moreover, aid for the installation of natural gas-fired equipment may unduly distort competition where it displaces investments into cleaner alternatives that are already available on the market, or where it locks in certain **fuels** ~~technologies~~, hampering the wider development of a market for and the use of cleaner technologies **and fuels**. The

considers that the positive effects of measures that create such a lock-in effect are unlikely to outweigh their negative effects. As part of its assessment, the Commission will consider whether the natural gas-fired equipment replaces energy equipment using the most polluting fossil fuels, such as oil and coal.	Commission considers that the positive effects of measures that create such a lock-in effect are unlikely to outweigh their negative effects. As part of its assessment, the Commission will consider whether the natural gas-fired equipment replaces energy equipment using the most polluting fossil fuels, such as oil and coal.
Section 4.8, Point 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.	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 **into natural gas** will be avoided. For example, this may include binding commitments ~~by the beneficiary~~ **to install technology ready for the use with renewable and climate-neutral gases (for example, "hydrogen-ready" technology) and ensure the substitution of natural gas by renewable or low carbon gas, or** 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.
Section 4.10, Point 348: As regards the construction or upgrade of district heating generation installations, measures that incentivise new investments in energy based on natural gas may reduce greenhouse gas emissions in the short run but aggravate negative environmental externalities in the longer run, compared to alternative investments. For those investments in natural gas to be seen as having positive environmental effects, Member States must	As regards the construction or upgrade of district heating generation installations, measures that incentivise new investments in energy based on natural gas may reduce greenhouse gas emissions in the short run but aggravate negative environmental externalities in the longer run, compared to alternative investments. For those investments in natural gas to be seen as having positive environmental effects, Member States must

explain how they will ensure that the investment contributes to achieving the Union's 2030 climate target and 2050 climate neutrality target and, in particular, how a lock-in of the gas-fired energy generation or gas-fired production equipment will be avoided. For example, this may include binding commitments by/from the beneficiary to implement 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.	explain how they will ensure that the investment contributes to achieving the Union's 2030 climate target and 2050 climate neutrality target and, in particular, how a lock-in of the gas-fired energy generation or gas-fired production equipment **into natural gas** will be avoided. For example, this may include binding commitments ~~by/from the beneficiary~~ **to install technology ready for the use with renewable and climate-neutral gases (for example, "hydrogen-ready" technology) and ensure the substitution of natural gas by renewable or low carbon gas, or** to implement 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.
Section 4.8, Point 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.	Delete
Section 4.8, Point 304 Member States are encouraged to introduce additional criteria or features in their security of supply measures to promote the participation of greener technologies (or reduce the participation of polluting technologies) necessary to support the delivery of the Union's environmental protection objectives. Such additional criteria or features must be objective, transparent and non-discriminatory in relation to clearly identified environmental protection objectives, and must not result in the overcompensation of beneficiaries.	Member States ~~are encouraged to~~ **can** introduce additional criteria or features in their security of supply measures to promote the participation of greener technologies ~~(or reduce the participation of polluting technologies)~~ necessary to support the delivery of the Union's environmental protection objectives. Such additional criteria or features must be objective, transparent and non-discriminatory in relation to clearly identified environmental protection objectives, and must not result in the overcompensation of beneficiaries.
Point 69 In that balancing exercise, the Commission will pay particular attention to Article 3 of Regulation (EU) 2020/852 of the European Parliament and of the Council[50], including the 'do no significant harm' principle, or other comparable methodologies. Futhermore, as part of the assessment of the negative effects	~~In that balancing exercise, the Commission will pay particular attention to Article 3 of Regulation (EU) 2020/852 of the European Parliament and of the Council[50], including the 'do no significant harm' principle, or other comparable methodologies. Futhermore,~~ as

on competition and trade, the Commission may take into account, where relevant, negative externalities of the aided activity where such externalities adversely affect competition and trade between Member States to an extent contrary to the common interest by creating or aggravating market inefficiencies including in particular those externalities that may hinder the achievement of climate objectives set under EU law [51].	part of the assessment of the negative effects on competition and trade, the Commission may take into account, where relevant, negative externalities of the aided activity where such externalities adversely affect competition and trade between Member States to an extent contrary to the common interest by creating or aggravating market inefficiencies including in particular those externalities that may hinder the achievement of climate objectives set under EU law.
Point 113 Provided that all other compatibility conditions are met, the Commission will typically find the balance for decarbonisation measures to be positive (that is to say, distortions to the internal market are outweighed by positive effects) in the light of their contribution to climate change mitigation, which is defined as an environmental objective in Regulation (EU) 2020/852, as long as there are no obvious indications of non-compliance with the do no significant harm principle.	Delete