

EHP Board of Directors, 29 January 2014

National Update Germany

New German government

After the elections to the German Parliament (Bundestag) are over the Christian (CDU) and Social Democrats (SPD) formed a coalition and a new government was established.

Energy was in the centre of attention for much of the election campaign, with a focus in the mass media on prices, security of supply and the possible reform of the feed-in-tariff system for RES.

In order to tackle the challenges associated with the so called “Energiewende” the government and the interconnected ministries were reformed. In the past energy was divided upon four ministries: The ministry for the economies (BMWi) was in general responsible for energy related topics but for some topics other ministries were in charge. The ministry for the environment (BMUB) was in charge of all RES related energy topics, the ministry for buildings for all building related topics and the ministry for agriculture for biomass related topics, minus the ones the ministry for the environment was in charge of. Not surprisingly this confusing set-up often lead to fights over interpretive dominance and resources and was in general not very efficient. Therefore the ministries were restructured, some of the potential conflicts could be cleared out, while others still remain. The ministry for the economies will now also be in charge of the energy related topics of the ministry of the environment, hopefully resulting in a more streamlined approach. However in a game of give and take the ministry of the environment inherited the building related topics from the associated ministry (which is now also responsible for IT). But since the SPD took both ministries (BMWi: Sigmar Gabriel and BMUB: Barbara Hendricks) potential problems might be easier to solve on the political level since in past coalitions BMWi and BMUB were divided upon the coalition partners.

This new focus was also transpositioned into the coalition agreement, which lays a heavy emphasis on the reform of the feed-in-tariff system for RES and in general the electricity market. While this also has implications for CHP and thus DHC, since in Germany DHC is relying heavily on CHP as a heat source, there are also a number of positive aspects directly aimed at CHP and DHC (via the heat sector). Quite a few of the AGFW positions (7 central points, see last update Germany) found their way into the coalition agreement.

The coalition

- Acknowledges the need for highly efficient and flexible conventional power plants;
- Wants to shape the legal and financial framework for CHP in order to reach 25 % CHP electricity in 2020 (currently ~13 %);
- Wants to evaluate the framework in 2014 on the basis of a (EED related) potential study;
- Wants to transform the EED into national law in a way that primary energy and CO₂ savings of CHP and DHC compared to other heating solutions can be brought to bear in a better way;
- Wants to focus on energy efficiency along the whole value chain;
- Wants to create a level playing field for energy supply and own production (which is currently freed from the RES related levy, giving on-site CHP a distinct edge in competition);
- Acknowledges technologies such as power-to-heat and (thermal) storage as a way to integrate large volumes of volatile RES electricity;
- Wants to streamline the urban restructuring program and strengthen the district as an important operating level.

Inquiries of competition authorities

Due to the federal nature of Germany there are several competition authorities. Besides the federal competition authority (Bundeskartellamt) there are also “Länder” specific competition authorities. Although the sector inquiry of the federal authority revealed that there is in general not a mis-use of market power of DHC utilities a couple of competition authorities are looking into their own inquiries.

Transpositioning of the EED

The threshold value matrix proposed by AGFW and based on the efficiency of the system (if the system is already efficient no analysis needs to be conducted) and the length of the pipeline that would need to be put in place was in general agreed upon. The work on the transpositioning continues with AGFW lobbying for a lean and streamlined approach to keep administrative costs at a minimum.

High efficiency criteria of the EED

Within the definition of the EED DHC is efficient when it uses at least 50 % renewable energy, 50 % waste heat, 75 % cogenerated heat or 50 % of a combination of such energy and heat.

With the aforementioned challenges in the electricity market flexibility will be one of the key elements in future CHP and DHC systems, meaning that operating hours of CHP systems may deteriorate even further, putting stress on the systems to fulfil the efficiency criteria of the EED. If support programs link eligibility to the efficiency criteria of the EED this may lead to situations where systems that are geared towards much needed efficiency may not be eligible for support anymore. This is a conflict that needs to be solved in the future.

State Aid inquiry regarding RES support in Germany

The Commission started an official inquiry regarding the RES support in Germany via the RES Act (EEG). The predecessor of the EEG, the Act on electricity supply (Stromeinspeisungsgesetz) was subject to a famous Court of Justice ruling, called “PreussenElektra” (since the energy supplier of the same name, now E.ON, was participant in the lawsuit). In the PreussenElektra ruling the Stromeinspeisungsgesetz was deemed to not involve state resources and thus no state aid. The Commission is of the opinion that the EEG 2012 has changed fundamentally from the Stromeinspeisungsgesetz and thus comes to the conclusion that the system, which does not involve any institution linked to the state, is indeed now granting state aid. The government answered the letter of the Commission with a strict refusal of the Commission’s point of view. The inquiry is of interest to the sector in Germany because it may have political implication for CHP support (which is based on a feed-in premium on top of the market price and not a feed-in tariff).

New tenancy law

In regards to the new tenancy law (requiring landlords to comply with cost thresholds when switching from own supply to a commercial heat supplier) AGFW is looking into standard efficiencies of on-site boilers through a set of tests and is conducting a study on this subject. The problem is that efficiencies of on-site boilers are usually highly overstated. Since the comparison of the existing heat supply and the new DH supply is partly based on the efficiency of the existing system (higher efficiency = lower costs = less likelihood of DH to be “cost neutral”) the sector has a keen interest on having these numbers as close to reality as possible.

POLAND

Roundtable on national developments

New financial perspective

On 18 December 2013, the European Commission (DG Competition) launched official public consultations of two documents that will condition public aid for energy and heating sectors for 2014-2020:

- Paper of the Services of DG Competition containing draft Guidelines on environmental and energy aid for 2014-2020 – EEAG;
- Commission regulation declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty – GBER.

The consultations will last until 12 February 2014 (GBER) and 14 February 2014 (EEAG).

Both documents are analyzed in detail by companies from energy and heating sectors, as well as by industry organizations (including the IGCP) in order to prepare positions to be provided to EU institutions. From the Polish perspective, the exclusion of heating from the possibility of obtaining regional aid is considered exceptionally dangerous. The obtainable horizontal aid will be practically unavailable for companies (it will only be possible to obtain aid for the implementation of this part of the investment, which will ensure the achievement of higher emission standards than those applicable).

Draft MCP Directive

In connection with the beginning of legislative works on the project of the above-mentioned Directive, a team was created within the IGCP in order to develop comments and suggestions of provisions which will be submitted to Polish government and to the EU.

Due to the potential of district heating in Poland, the large number of heat sources within the range of 1-50 MW as well as the fuel structure, the draft of the directive is very important for the heating market in Poland. Initial, preliminary assessments of the draft indicate a very serious tightening of emission standards for this range of sources. They raise doubts concerning the legitimacy of such restrictive emission standards, they call for an analysis of the relationship between the amount of investment and effects obtained, and finally they raise questions about available technologies. Doubts are also raised by the fact that the proposed new emission standards for medium (and small sources) are equally high (and sometimes, like in the case of dust) even stricter than for large combustion plants (as defined in the LCP Directive).

The support system for cogeneration

Works on the draft law extending the support system for cogeneration were resumed in the Parliament. Since the beginning of 2013, a legal loophole has been present, in which the support system that functioned since 2007 ceased to apply. The system consists of a mandatory reception of

electricity by a distribution system operator and the issuance of certificates of origin from cogeneration by the President of the Energy Regulatory Office. These certificates may be traded on the Polish Power Exchange (TGE). Manufacturers who obtained certificates of origin from cogeneration can sell them via TGE to obliged subjects, thus gaining additional income from power generation.

CHP support system is completed by provisions of the act allowing a pecuniary sanction for companies that did not fulfill the obligation to redeem an appropriate number of certificates of origin and certificates of origin from cogeneration or to pay a replacement fee.

The obligation to obtain and present to the redemption of certificates of origin and certificates of origin from cogeneration or to pay a replacement fee was imposed on companies engaged in the production or trade of electricity that sell electricity to end-consumers.

In order to fulfill the obligation, energy companies can redeem appropriate certificates of origin or pay replacement fees to the National Fund for Environmental Protection and Water Management. This fee should be allocated to support the production of electricity from renewable energy sources and generation of electricity and heat from cogeneration sources located on Polish territory.

The draft law on renewable energy sources

The Ministry of Economy prepared a new draft law on renewable energy sources, which implies moving away from the previous system of subsidizing current production of energy from renewable sources (by certificates of origin) to an auction system, in which the one who offers the lowest price of such energy receives a guarantee of purchase even for 15 years, for the submitted price indexed for inflation.

The Ministry of Economy assumes that the act will come into force at the beginning of 2015, and auctions for the purchase of "green" energy will be announced at least once a year.

There will be separate auctions for renewable energy sources with power above and below 1 MW, with at least 25 percent of energy covered by the support is required to originate from small sources, of less than 1 MW. This, according to the Ministry, is supposed to secure support for small producers. According to the act, these costs will be passed on to consumers in the form of so-called RES fees. The settlement of RES fees will be conducted by a special company - Renewable Energy Settlement Operator (Operator Rozliczeń Energii Odnawialnej, OREO).

Country report Sweden January 2014

New DH regulation

All inquiries on District heating regulations has been finalized and been on public consultation. The results are very weak. The proposal for price regulation has been rejected by customer organizations as well as both the Energy Inspectorate and the Energy Authority. The proposal of regulation for third part access to the grid has been rejected by the industry, that was supposed to be the ones accessing the grid, and the Energy Authority. These were the major proposals for new legislation but if nobody wants them, it seems to be difficult for the government to put anything forward to the parliament.

We expect a proposal for new legislation in March, but expect it to result in little changes in reality for the energy companies. The government has promised us that there will be no more inquiries or investigations so we hope (wish for) a few quiet years for the District heating industry when it comes to new DH regulation

Building codes

We thought we had a major victory when the government in the budget proposal in September said they would ask the authorities to propose changes towards technology neutral building code, but it was cheering too soon. The building authorities are putting up a fight and says they have heard nothing and will do nothing. This is now a fight between energy and building authorities and we have to keep the pressure up.

Environmental standards for buildings

After seven years of negotiations we now have a proposal of a standard for labelling the environmental performance of building. This is a very tricky matters. Should an inefficient building where the owner buys green electricity for heating be allowed to get label gold? This would be in line with Swedish legislation of label of origin for electricity, so we will say yes. The proposal includes primary energy as one criteria of environmental performance, which is an important step forward for us. So we will vote yes and accept that customer can buy green electricity and green District heating and get gold standard. Is it the right way forward? He future will tell.

General information

Year 2014 will be a quiet year in one since. We will get a new parliament in September so there will be no new legislation after March. But it will at the same time be big discussions on the general energy politic which could decide most of our future. A new coalition is expect, and at the moment it looks like we will shift from center/right to left/green.

But internally there will be turmoil. We will (with almost 100 % certainty) merge the research organizations of electricity, gas and district heating. This means reduction of means and staff for SDHA and a re-organization. There has also been taken a serious initiative to merge the actual associations of electricity, gas and district heating. This might go fast or slow but means uncertainty and much internal debate.



chpa

Bringing Energy
Together

UK Country Update

Context

April 2013 saw the UK Government publish its heat strategy. Much of the activity on heat networks is based on the position set out in this document.

Heat Networks Delivery unit

A new division in the Energy Department with £6m to fund local authorities to conduct feasibility work into district heating. Over half the Local Authorities have applied for funding!

CHPA: CIBSE Code of Practice for DH

There is growing concern that DH is being designed installed and operated by poorly informed individuals and companies. This may be leading to higher prices and is a risk to the reputation of the industry. The CHPA is working with the Chartered Institute of Building Services Engineers to produce a Code of Practice that will examine DH at each stage and set standards that must be met to ensure an effective DH system. The document will be drafted and sent for public consultation in May. The final document will be published by the end of 2014.

DH to be eligible for Carbon Saving Support

An Autumn announcement is that DH will now be able to be installed as a measure on its own under a scheme aimed at improving household energy efficiency and reduce carbon emissions. The scheme is called the Energy Company Obligation (ECO)

Department for Communities and Local Government (DCLG) threatening DH

House builders are proving successful in lobbying DCLG to remove laws that are helping DH and energy efficiency more widely. Local Authorities have the power to demand that Developers build homes to a higher standard than set out in central government regulations. This is a major driver for DH in the UK. The Government is proposing to scrap this law.

Independent customer protection scheme

In the UK gas and electricity supply are regulated. There are a series of rights afforded to customers in these regulations. Heat is entirely unregulated. Heat networks can connect customers to long contracts of 10+ years. This creates two risks

1. Investors are concerned that the lack of consumer protection means that regulation is inevitable and this increases their investment risk
2. The industry is concerned that there is a risk of poor quality heat networks failing to provide good value to consumers with opaque pricing and unclear billing practises.

To ensure that we have a stable and growing industry, it is vital the consumers, the Government and investors perceive DH to be an effective and fair system for meeting energy users needs. The CHPA is seeking to establish an independently governed industry scheme to ensure protection for customers connected to district heating. We have consulted on the proposals and are in the process of collating the responses to the document. The CHPA would hope to see a scheme launched in 2014 but this is funding dependent.



Euroheat & Power Board Meeting - Brussels, January 29th, 2014

Italy – National Brief

Debate about DHC regulation

The debate about the regulation of DHC sector has not yet come to a conclusion.

According to unofficial declarations in the month of November the Authority for Market and Competition (AGCM), after more than 18 months, completed the survey on the DHC sector and wrote the final report. According to the same unofficial sources the report would state that a regulation of DHC market is no needed so far.

But, in a very unusual way, the report has not yet been published. The reason for this seems to be the strong discussion in place between AGCM and AEEG (the Authority for Electricity and Gas) which in the recent past explicitly asked to the Parliament to be entitled for the regulation of the DHC market.

In the meanwhile lobbies are working: one of the Houses of Parliament (Camera) voted a resolution to ask the Government for a strong regulation of the DHC market. The other House of Parliament (Senato), instead, asked the Government not to regulate the sector.

This discussion is also stopping the definition of the operative rules of the Guarantee Fund for the development of the DH networks (a fund, financed by a part of the price paid by gas costumers, that was established more than one year ago by the Government to incentivate investments in DHC infrastructures).

As a results around 100 M€ (amount of money increasing every month) are still blocked in the Fund and cannot be utilized by DH companies and investors.

Large Projects

On the Energy Efficiency side a last year Government Decree defined the so-called “Grandi Progetti” (i.e. large projects) as projects which can assure an energy saving of more than 35.000 TOE/year. For such projects it is foreseen a bonus above the normal mechanism of “White Certificates” (40% bonus between 35.000 and 70.000 TOE/year, 50% above 70.000 TOE/year) under the condition that they can also contribute in a significant way (to be evaluated by the Ministry for Economical Development) to the reduction of air pollutants in metropolitan areas. This Decree should be a quite good incentive for development of large DHC projects in highly populated urban area.