State aid in the district heating sector
EU Member States examples
State aid in the district heating sector
EU Member States examples

A State aid is any public aid which distorts or threatens to distort competition by favouring certain undertakings or certain energy resources. In the field of energy and environment, the European Commission adopted the “Guidelines on State aid for environmental protection and energy 2014-2020” (Energy and Environmental Guidelines). The Guidelines outline the principles and conditions under which State aid for environmental protection and energy objectives may be considered compatible with the internal market. The Energy Community's legal framework incorporates the European's energy and State aid acquis, including the Energy and Environmental Guidelines. This text is to provide examples of different forms of State aid granted to district heating/heating sector by EU Member States.

Romania's district heating support scheme worth cc. EUR 150 milion has been recently approved by the European Commission. This investment aid aims to support the transition of existing district heating systems from fuel-based to renewable-based sources. It covers investments in the district heating generation capacities up to a total capacity of 60 MW of heat equivalent. This is expected to lead to an overall decrease in greenhouse gas emissions of up to 48,000 metric tonnes of CO₂ as well as other polluting substances while the scheme is in place (i.e. until 2023). The Commission confirmed that the use of biogas and biomass under the scheme would be in line with the sustainability requirements of the Renewable Energy Directive II and with the Waste Framework Directive.¹

In contrast, in December 2019, the European Commission decided to initiate a formal investigation procedure to assess the compatibility of a direct grant for the modernisation of the heat network in five Poland's municipalities.² All five projects involve existing district heating systems where heat is generated mostly by coal-fired boilers. The European Commission raised doubts whether the measures target an objective of common interest (environmental protection) because they involve support to district heating systems based on fossil fuels that do not meet the definition of efficient district heating set in the Directive on Energy Efficiency (EED). According to the Energy and Environmental Guidelines, in order to ensure that aid contributes to a higher level of environmental protection, aid for district heating and district cooling and cogeneration of heat and electricity (CHP) will only be considered compatible with the internal market if granted for investment, including upgrades, to high-efficient CHP and energy-efficient district heating and cooling. Article 2(41) EED defines 'efficient district heating and cooling' as a district heating or cooling system using at least 50% of renewable energy, 50% of waste heat, 75% of cogenerated heat or 50% of a combination of such energy and heat. The Commission argues that while the proposed projects do result in some improvements to efficiency, these heating systems will continue to generate significant pollution until the heat sources are upgraded. The case is still pending.

There are examples of support schemes granted not only to a district heating company as an incumbent, but also to independent heat producers. The European Commission approved two

Czech support schemes for producers of renewable heat. The first case deals with operating aid in the form of feed-in premiums for small scale installations (up to 500 kW) for heat production. The installations are burning biogas of which at least 70% is derived from animal by-products, barnyard manure or biodegradable waste. The European Commission found that the State aid is compatible with the internal market because it aims at achieving the common objective of contributing to the 2020 energy targets as well as the targets on restricting landfilling of biodegradable waste set by the Landfill Waste Directive. In the second case, the European Commission also approved an aid granted in the form of a top-up to the market price of heat – the so-called “green bonus heat” - to installations that use specified types of biomass fuel and geothermal energy.

Furthermore, the European Commission gave green light to a State aid in the form of investment aid – a direct grant for the support of a connection of two regional district heating networks in Germany. The aim of this measure is to provide support to the expansion of the existing district heating network in North-Western Germany by covering the increased demand of the region’s population for this type of heating - 300 to 400 new district heating connections per year are expected. Moreover, the project will increase the overall system stability and diversification of the heat supply sources, as it provides joint access to a larger pool of CHP, industrial waste heat, CHP from waste incineration and renewable heat sources, making it the largest district heating network in Europe. The European Commission has also confirmed that the project satisfies the definition of efficient district heating and is therefore compatible with the Energy and Environmental Guidelines. In a similar case in Croatia, the investment aid awarded to a district heating company in Zagreb for the revitalisation of the hot water network was approved, finding that the district heating network constitutes an energy-efficient heating network since the share of cogenerated heat in the district heating company in Zagreb is 85.2%. The project encompasses the replacement of 68.5 km of the main hot water pipelines and of the hot water distribution network over a period of four years.

Finally, there are examples of State aid provided to district heating companies with the purpose of covering financial losses. The purpose of these measures differs from the ones described above: the former ones aim at environmental protection and are assessed in light of the Energy and Environmental Guidelines, the latter aim at rescuing undertakings in difficulties and have to be assessed under the Guidelines on State aid for rescuing and restructuring non-financial undertakings (R&R Guidelines). An undertaking is considered to be in difficulty when, without intervention by a state, it will almost certainly be condemned to going out of business in the short or medium term. The R&R Guidelines set forth the circumstances in which the company will be regarded to be in difficulty. For example, the European Commission approved Romanian State aid in the form of loans granted to CE Hunedoara, a state-owned electricity and heat producer, since the aid aims to prevent

---

3 State Aid SA.43451 (2015/N) – Czech Republic Operating support for small scale biogas installations with capacity of up to 500 kW
social hardship or address market failure - disruption to important services, which are hard to replicate. The loans are used to finance the liquidity gap for the period of six months, with the interest rate of 6.36%. Romania also obliged itself to submit a restructuring plan for the beneficiary, and to legally separate power plants from coal mines, since the coal sector is excluded from the scope of these guidelines.⁶

From the above non-inclusive list of State aid cases related to the heating/district heating sector assessed by the European Commission, it can be concluded that these sectors are supported in a variety of forms, ranging from individual investment aid to operating aid schemes. However, any such support is subject to the scrutiny of the competent State aid authority, in the case of EU Member States the European Commission and in the case of the Energy Community Contracting Parties their respective national State aid authority. These authorities must ensure compliance of such support with the State aid acquis. As stated, to be found compatible with the internal market, State aid granted to the district heating sector should either aim at increasing environmental protection or at rescuing a company in difficulty. In both cases, State aid needs to be primarily notified to the competent State aid authority and the compatibility conditions need to be met.