



**CONCERTED ACTION
ENERGY EFFICIENCY
DIRECTIVE**

Financing energy efficiency: dealing with State Aid rules

Executive Summary 4.7

Funds and Financing for Energy Efficiency

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1 Background and Introduction

The term 'State Aid' refers to a form of assistance from publicly funded resources which are used to selectively support organisations or businesses. This can range from government departments and local authorities to institutions. State Aid rules are designed to prevent the use of this financial support in ways that may distort competition and free trade in the EU.

The provision of European Structural and Investment Funds (ESIF) in support of energy efficiency projects is invariably subject to State Aid requirements. The failure to properly address EU State Aid rules may result in a requirement to repay the monetary value of any assistance provided, resulting in both financial and political ramifications for the funder as well as for the recipient of such funding.

Therefore, the need for Member States (MS) to fully understand the requirements of State Aid is critical in ensuring the successful financing and delivery of energy efficiency projects. There are, however, exceptions to State Aid requirements that have been established to simplify procedures for aid-granting authorities at a national, regional and local level. 'De minimis' is the most commonly used exemption that permits up to 200,000 Euros to be provided to a fund recipient, subject to certain conditions. Provisions for exceptions are also included in the General Block Exemptions Regulation (GBER).

As part of this research, a survey of MS was carried out. Many MS reported that they had specialised support units advising on State Aid. In some cases, these units were centrally located in the Ministries but there were also examples of regional and local State Aid support teams. On the whole, MS found the General Block Exemption Regulation and The Environmental and Energy State Aid Guidelines (EEAG) helpful in granting aid.

2 Summary

The following main points emerged from discussions between participants in the Concerted Action:

- There is a need for more co-operation in the dissemination of information about State Aid requirements, including the sharing of best practice between the Commission and the MS.
- Information regarding State Aid can be found on the e State Aid Wiki platform, which is managed by the Commission.
- It is important to identify areas of intervention and real market needs while focusing on mechanisms to avoid the need for State Aid notification.

2.1 State aid rules for energy efficiency measures and district heating

Christos Peolidis from DG COMP provided basic information on State Aid provisions in the context of policies and measures to promote energy efficiency.

The following key issues were included in the presentation:

- Guidelines on State Aid for environmental protection and energy ('Energy and Environmental Aid Guidelines'), with particular emphasis on allowable aid intensity (generally 50% for small enterprises, 40% for medium-sized enterprises and 30% for large enterprises) and the principles concerning the methodology for the calculation of eligible costs;
- General Block Exemption Regulation, indicating the allowable aid intensity and rules related to the methodology for the calculation of eligible costs under the provisions of Article 38. In addition, the presentation underlined that Article 39 lays down the detailed rules for supporting energy efficiency in buildings (e.g. loans or guarantees as a form of financing, eligible cost of the investment, aid intensity up

to 10 million Euros, and distribution of funds through financial intermediaries). GBER also covers the rules concerning financing of investments in the area of high-efficiency cogeneration and district heating and cooling networks;

- Thresholds for individual notification of projects (10 million Euros for projects in energy efficiency, 20 million Euros for projects concerning district heating and cooling networks).

2.2 Energy efficiency & State Aid – Polish experience

Marta Cerkownik, Head of the State Aid Unit in Poland, described the experience of the Polish National Fund in dealing with State Aid and financing energy efficiency programmes. The presentation included information about:

- Polish Sustainable Energy Financing Facility Programme (PolSEFF II) - a joint project of Polish National Fund for Environmental Protection & Water Management and European Bank for Reconstruction & Development (EBRD). An example of the application of the *de minimis* regulation;
- Green Investments Scheme programmes for the thermal refurbishment of public buildings and the modernisation of public lighting systems in urban agglomerations. This included examples of support which do not constitute State Aid, under specific conditions, mostly because of the types of beneficiaries (public or government-owned);
- The 'Efficient use of energy for large enterprises' programme, aimed at financing the preparation of energy audits (support under *de minimis* regulation) and later at investments resulting from the audit recommendations. Investments financed through soft loans under regional State Aid or EEAG;
- Measures for the efficient distribution of energy and thermal refurbishment of public buildings within the Infrastructure & Environment Operational Programme 2007-2013 (notification);
- Works related to the preparation of national regulations (based on the provisions of the GBER - Art. 38 and Art. 46) allowing the provision of financing for investments in improving energy efficiency in enterprises and the buildings sector, and high-efficiency cogeneration and heat distribution and cooling networks under the Infrastructure & Environment Operational Programme 2014 – 2020.

2.3 Energy efficiency policy and financing – connecting the dots in State Aid

Ioannis Orfanos representing the UK's Department of Energy and Climate Change presented practical examples of different energy efficiency support schemes accompanied by discussion of the main problems and challenges related to State Aid in the UK.

Selected programmes that were discussed during the presentation were:

- Energy Demand Reduction (EDR) Pilot Programme, based on competitive auctions for projects aiming to reduce energy consumption through demand side reduction measures. Funding was provided in the form of subsidy for each kWh saved during the winter season. The pilot scheme was open for every type of beneficiary (SMEs, large enterprises, public authorities). State Aid provided through notification based on EEAG guidelines;
- Climate Change Agreements (CCAs) rely on voluntary commitments from large, energy-intensive enterprises to reduce energy consumption in exchange for reductions in the environmental tax paid by each company (Climate Change Levy (CCL)). The support is in the form of tax relief for participants that fulfill approved targets. Where an enterprise fails to meet its targets, it has to pay a buyout fee. State Aid provided in accordance with the provisions of the GBER;
- Green Deal Finance Corporation (GDFC) is a scheme designed to increase energy efficiency in the UK's housing stock. The concept is based on creating a non-profit company (by energy companies) which facilitates and provides the necessary finance to households. National funds were used in the form of subordinated loans. GDFC was an innovative scheme at the time and required an individual approval from the EC. Eventually State Aid was approved and provided under the GBER provisions.

In addition, the presentation helped to identify funding sources for energy efficiency support taking into consideration the size of the company and the project as depicted below:

Size of project	Micro & Small (<50 to 100 staff) average credit rating	Medium size (>100 to 250 staff) average to good credit rating	Medium to Large (>250 staff) poor to average credit rating	Large (>250 staff) Good credit rating
< €25k	Own resources / Bank loan	Own resources / Bank credit line	Own resources	Own resources
€25 – 100k	Own resources / Bank loan	Own resources / Bank loan	Own resources / Bank credit line	Own resources / Bank credit line
€100 – 250k	Bank loan	Bank loan / EPC Solutions	Own resources / Bank loan	Own resources / Bank loan
€250k – 1million	n/a	Bank loan / EPC Solutions	Bank loan / EPC Solutions	Own resources / Bank loan
€1- 3million	n/a	Bank loan / EPC Solutions	Bank loan / EPC Solutions	Project loan / EPC Solutions
>€3 million	n/a	n/a	EPC Solutions	EIB / Project loan / EPC Solutions

Easy to access finance (Green)

Limitations in accessing finance (Yellow)

Difficult to access finance (Red)

Placing focus
Small to medium sized businesses having limitations or difficulty accessing finance based on the size of EE project

3 Conclusions and Recommendations

The workshops helped to formulate a number of conclusions and recommendations related to the use of State Aid provisions in financing energy efficiency. During the session, among other things, the following issues were discussed:

- Structure of State Aid units operating in the specific Member States and administrations;
- Ways of disseminating information relating to State Aid rules;
- Additional administrative burdens and requirements related to the necessity of applying State Aid;
- Experience in dealing with State Aid notifications

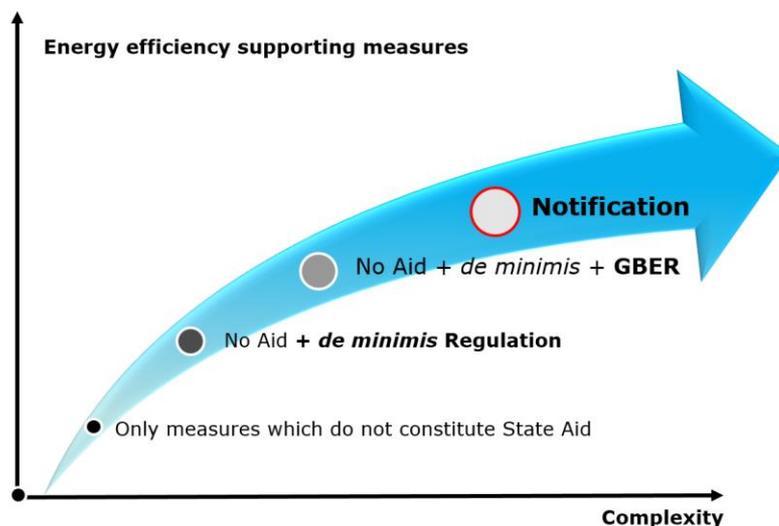
Many Member States agreed that State Aid rules are very complex to interpret and present heavy, additional administrative burdens on MS. Overall, however, the participants considered that State Aid requirements should be regarded as more of a challenge than a problem.

Member States are still lacking experience and knowledge of State Aid provisions, which is one of the fundamental barriers in successfully setting up energy efficiency programmes and implementing structural funds. As a consequence, there is a great need for strengthening cooperation in the dissemination of information about State Aid including sharing best practices and successful and practical applications of State Aid provisions. Participants stressed the need for clear guidance from the Commission in interpreting requirements.

e-State Aid Wiki, is a platform hosted by the Commission allowing MS to post queries about implementing State Aid requirements and receive responses. Member States felt that this is an extremely useful tool, which should be widely promoted to the MS.

It was also suggested that it would be helpful to have cross working between Member States, through a State Aid platform whereby countries could share best practice as well as gain a greater understanding of successful outcomes from State Aid projects gathered from the collation of Commission monitoring reports.

Finally, it was concluded that when designing energy efficiency support programmes it is crucial to carefully identify areas of intervention and real market needs (preceded by a sound ex-ante assessment) and to focus on measures and mechanisms which avoid the need for notification (e.g. programmes based on the provisions of the GBER or use of "off the shelf instruments"). The graph below represents the preferred approach and implementation options of setting up energy efficiency support measures. The degree of complexity of dealing with State Aid increases the more grant aid moves towards the requirement for notification.



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The Concerted Action for the Energy Efficiency Directive (CA EED) was launched by Intelligent Energy Europe (IEE) in spring 2013 to provide a structured framework for the exchange of information between the 29 Member States during their implementation of the Energy Efficiency Directive (EED).

For further information please visit www.ca-eed.eu or contact the CA EED Coordinator Lucinda Maclagan at lucinda.maclagan@rvo.nl



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