

POSITION PAPER

Brussels, Friday 24th April 2025

# EHPA feedback on State Aid Guidelines supporting the Clean Industrial Deal (CISAF)

The European Heat Pump Association (EHPA) represents the voice of the European heat pump sector in Brussels, working to shape EU policies that will enable the sector to thrive, making heat pumps the preferred choice for heating and cooling by 2030.

#### **General comments**

EHPA welcomes the opportunity to provide feedback on the draft related to the State Aid Framework accompanying the Clean Industrial Deal Communication (here in after referred as to **the Draft**). This initiative represents an important step toward incentivizing the deployment of renewable energy, advancing industrial decarbonization, and ensuring that manufacturers have access to the necessary funds to invest in clean technologies in Europe. Our goal is to ensure that the Draft serves as an effective tool for <u>accelerating</u> investments in clean technologies, by establishing an aid framework that is accessible, structurally simplified, and easy to navigate.

In alignment with the Commission's political priorities, EHPA strongly advocates for a <u>simplified and more clearly structured Draft</u> to ensure its effective implementation. Simplification is not solely about reducing text or eliminating procedural steps; it is about creating a framework that is clear and user-friendly, ensuring that all stakeholders – including individuals and national administrations – can effectively engage benefit from the aid framework. A well-structured framework is essential to ensuring that authorities, businesses, and individuals can efficiently navigate the policies and legal requirements, allowing for the seamless application of aid rules without unnecessary complexity.

The Draft makes progress by categorizing different types of aid in Sections 4 to 7, but the current structure is difficult to navigate and lacks consistency. For example, Section 5 clearly includes a dedicated subsection on scope, while similar subsections are missing in Section 4, 6, 7. Without dedicated subsections for each aid scheme, businesses and Member States may struggle to understand the specific requirements, which could lead to delays and misunderstandings. To enhance the Draft





effectiveness, <u>EHPA recommends the Commission to adopt a simplified and</u> <u>consistent structure for the Draft. This aim could be achieved by introducing explicit</u> <u>subsections for each aid scheme that clearly outline:</u>

- a) **The scope of each aid scheme** (i.e., identify the area of investment or projects to ensure businesses know whether they are eligible or fall in which type of aid).
- b) **Specific requirements for Member States**: all the rules and criteria Member States should observe to implement the aid schemes effectively.
- c) Aid granting (e.g., aid intensity or funding gaps, competitive bidding).
- d) **Aid disbursement**: detailing how aid will be distributed, including the necessary steps and <u>timelines</u> of the procedure.

While this approach may slightly lengthen the document, clarity and accessibility must take precedence. A well-organized framework will not only enhance legal certainty but also reduce administrative burdens for the Member States responsible for its implementation, enabling swift and efficient aid deployment. By ensuring that the Draft is both comprehensive and navigable, the Commission will reduce any barriers for the business - especially small and medium-sized enterprises (SMEs) - which often lack the resources to assess complex regulatory frameworks. SMEs shall be able to access the aid without being obstructed or discouraged by excessive bureaucracy

Beyond simplification, a key priority is ensuring that the Draft fulfils its core objective of accelerating investment deployment, <u>as highlighted in Section 1.2</u>, Point (8) of the <u>Draft</u>. While the emphasis on speeding up aid disbursement is positive, <u>the Draft lacks</u> <u>specific guidance on the maximum timeframes within which aid should be granted for eligible projects</u>. Without clear timelines, delays in implementation could undermine the Draft's objective and create uncertainty for businesses, potentially slowing down critical investments in clean technologies.

Therefore, <u>EHPA strongly recommends the inclusion of **indicative timelines** for granting aid once a Member State's aid scheme is approved by the European Commission. These timelines should allow businesses to plan their investments with certainty. A **predictable timeframe** will not only enhance legal certainty but also ensure that aid reaches eligible projects quickly and efficiently, reinforcing the Commission's commitment to fostering industrial innovation and economic competitiveness.</u>

Therefore EHPA recommends introducing **indicative** timeline benchmarks (not rigid deadline): "The decision-making process by the National Regulatory Authorities should not exceed [e.g. 6 months] from application submission. Where appropriate, these indicative timelines may be adapted to the specificities of the aid instrument or national administrative processes."



Specific observations and recommendations on individual sections of the Draft are provided below.



#### Section 4. Aid to accelerate the rollout of renewable energy

1. If you consider the proposed completion deadlines or exemptions therefrom (see point (37)) are not appropriate, please provide concrete justification for any alternative timeline or other exemptions you would consider more appropriate.

• <u>Point (37)</u>: (i) the proposed 36-month completion deadline is not suitable for industrial thermal storage projects and shall be included in the exception listed; (ii) penalties shall provide for exception and flexibility

The current 36-month deadline for implementation may be too short in cases where energy storage projects is part of the supported projects. <u>Therefore, EHPA proposes</u> to include thermal energy storage installation linked to industrial activities in the list of the exception that exclude projects to observe the deadline.

Moreover, while an effective system of penalties is essential to ensure accountability, EHPA strongly advocates for a more balanced and flexible penalty mechanism within the aid scheme. <u>EHPA proposes that penalty schemes include exemptions and flexibility in cases where project delays are due to genuine, documented challenges.</u>

Therefore, Point 37 should be read as follow (in bold the suggestions): "With the exception of offshore wind, hydropower, including hydro storage, and renewable hydrogen production installations and thermal energy storage installations linked to supported projects, supported projects must be completed and be in operation within [36] months after the date of granting. The scheme should include an effective system of penalties in case the deadline is not met; however, penalties should be proportionate and allow for exemptions or adjustments in cases where delays or underperformance are the result of documented, justified external factors beyond the control of the beneficiary."

2. Please provide any comments specific to section 4.2 of the draft framework ("Aid for non-fossil flexibility support schemes").

 <u>Point (53)</u>: (i) lack of clarity regarding the scope of this subsection; (ii) aid for interoperability schemes, which are the precursors of flexibility schemes, ought to be defined and therefore included in the scope of the Draft



The current wording of Point (53) "the measure will be open to non-fossil technologies capable of providing the flexibility services and at least to storage of electricity and demand response" is insufficiently precise and creates unnecessary ambiguity regarding the scope that it tries to define. The lack of clarity regarding the meaning of this provision risks fragmented implementation across Member States and weakens the regulatory signal needed to mobilize investment towards non-fossil flexibility services, like heat pumps.

Heat pumps are able to provide flexibility service and are demand response but do not store electricity. The current definition creates the **risk of excluding heat pumps** from eligibility, as they do not fit neatly into the "*storage of electricity*" category listed in Point (53) despite their significant role in providing flexibility services. Therefore point (53) in its current wording and structure risks to exclude heat pumps.

Moreover, the Draft should include <u>in a new point</u> a clearer differentiation between electricity storage technologies and those technologies which can provide flexibility via an aggregated demand response service (like heat pumps). Flexibility schemes should clearly distinguish between large-scale storage projects – which provide substantial amounts of flexibility services – and aggregated demand response project.

A new point is necessary, as the regulatory conditions for aggregated demand response – particularly concerning market access and integration – must be clarified before projects can begin.

Moreover, **interoperability schemes**, which are the precursors of flexibility schemes, ought to be defined and deployed through harmonized rules developed by taking into due account the needs of all involved stakeholders. Aid should be available also for the implementation of interoperability schemes.

Therefore Point 53 shall be read as follow (in bold the suggestions): "The measure will be open to non-fossil technologies capable of providing the flexibility services, and/or energy storage, and/or of electricity and demand response. Moreover, the measure will be open to the implementation of interoperability schemes".

• <u>Point (61)</u>: (i) lack of clarity regarding the nature of the contract; (ii) other financial instrument rather than contracts should be provided for aggregated demand response projects



Currently, Point (61) refers to "*contracts covering a period no longer than 10 years*" but it does not specify the type of contract envisaged. It is essential to clarify whether this refers to, for example, two-way Contracts for Difference, fixed operational support, or a funding gap analysis over a 10-year period. Without this clarification, market participants – especially in the aggregated demand response field – are unable to assess the applicability or effectiveness of the proposed mechanism. <u>EHPA therefore</u> **recommends to explicitly define the nature of the contract envisaged**.

Moreover, restricting state aid exclusively to contracts is too narrow and does not reflect the needs of all flexibility providers, particularly those involved in aggregated demand response. These projects face distinct challenges, including regulatory uncertainty (e.g. access to spot markets), longer development lead times, and more complex stakeholder coordination. A contract-only approach is therefore unsuitable.

To ensure the state aid framework is future-proof and responsive to different business models and regulatory developments, EHPA strongly recommends (i) to specify the nature of the contract envisaged in Point (61) and (ii) to include a **new Point that would allow for a broader range of financial instruments beyond contracts**. These could include market-based premiums, operational subsidies, or other tailored mechanisms that better reflect the evolving flexibility landscape.

#### • Point (66): request for deletion

**Point (66) lacks clarity** in its current form. As it stands, it is not evident how this provision contributes to the overall coherence or implementation of the aid framework. If the intention of the point cannot be further clarified or substantiated with clear criteria or guidance, **EHPA recommend its deletion** to avoid confusion and potential misinterpretation by Member States or market actors.

## • <u>Point (67)</u>: clarification needed on duration of aid approval vs. contract length

There is a lack of clarity regarding the relationship between **Point 61**, which states that aid is granted through contracts covering a period of no longer than **10 years**, and **Point 67**, which limits the approval of the measure to a maximum of **5 years**. **EHPA requests that the Commission clarify how these two timeframes interact before introducing them.** 



# 3. Please provide any comments specific to section 4.3 and Annex I of the draft framework ("Aid for capacity mechanisms following a target model").

#### <u>Capacity mechanisms shall not undermine flexibility development</u>

EHPA emphasizes that capacity mechanisms shall not conflict with or undermine future flexibility support schemes. Given the close interlinkage between the two, the framework shall ensure full policy coherence.

Aid for capacity mechanisms shall be strictly limited to securing energy supply in urgent situations, such as periods of low wind and solar generation. It shall not create structural conditions that discourage or displace investment in non-fossil flexibility solutions. In order to enhance flexibility, capacity mechanisms should be allocated in a *fair and cost reflective manner across users* that enhances the *economic signals to increase system efficiency* and decrease overall costs, (E.g., at peak demand or when power plants funded under the capacity mechanism are used, charges should be highest and therefore lowest at times of high renewable generation).



#### Section 5. Aid to deploy industrial decarbonisation

1. Please provide any comments specific to section 5 of the draft framework ("Aid to deploy industrial decarbonisation").

## • <u>Point (76) and footnote 47</u>: inclusion of direct price support in the form of Carbon Two-Way Contracts for Difference to ensure support for OPEX

The primary challenge in accelerating industrial decarbonization goes beyond addressing the initial funding gap during the investment phase. It also involves safeguarding industries against the volatility of commodity prices, which significantly impacts the operational costs (OPEX) of decarbonization technologies. According with the Commission's Impact Assessment of the 2040 Objective, the electrification of low and mid-temperature industrial heating process is the way forward to drive efficient decarbonisation of the economy.

As industrial sectors transition to technologies designed to reduce GHG emissions and improve energy efficiency – such as industrial heat pumps, electrified heating systems, and renewable energy solutions – they become increasingly vulnerable to the unpredictability of energy prices (including gas, electricity, and carbon). Without a mechanism to shield these industries from such price fluctuations, companies may hesitate to commit to these green investments due to the uncertainty surrounding their future operational costs. To deal with this scenario, the Two-Way Contracts for Difference (here in after referred as to **CCfDs**) provide a powerful solution to this challenge. By offering a financial safety net that adjusts payments based on shifts in energy and carbon prices, CCfDs help stabilize the economics of decarbonization projects, ensuring that they remain financially viable, even in volatile market conditions. This certainty allows companies to move forward with investments in technologies that reduce GHG emissions and improve energy efficiency without the risk of unexpected and excessive increases in operational expenses.

Moreover, the inclusion of CCfDs under the Draft does not introduce any risks since it already contains a claw-back mechanism already in place according to Section 5.3.2., which ensures that aid is allocated fairly by adjusting settlements in response to fluctuations in CO2 ETS market prices and fossil gas prices relative to electricity prices. This mechanism guarantees that the financial support provided remains in line with market realities, preventing overcompensation and ensuring the sustainability of the fund.



Furthermore, while CCfDs are already foreseen under the aid scheme approved under the Guidelines on State aid for climate, environmental protection and energy (**CEEAG**), it is necessary to have this option also under the Draft. Since the Draft is intended to fast-track investments that are crucial for achieving rapid decarbonization, by excluding CCfDs from the Draft would force projects relying on this mechanism into the slower, more cumbersome approval process of CEEAG, delaying the roll-out of critical industrial decarbonization initiatives.

In conclusion, the inclusion of CCfDs within the Draft is essential to ensuring the timely and effective deployment of decarbonization technologies. It will protect industries from price volatility, encourage investment in GHG-reducing technologies, and support the achievement of Europe's long-term climate and energy objectives.

Therefore, EHPA recommends the Commission that Point 76 explicitly includes Two-Way Contracts for Difference as part of the suite of financial measures available to support the aid in the field of industrial decarbonization. Additionally, Footnote 47 should be amended accordingly to ensure that these financial mechanisms are incorporated within the framework and not excluded because are already foreseen under the CEEAG.

#### • <u>Point (77)</u>: need to substantiate the prioritization of renewable heat, flexible direct electrification and waste heat

Point (73) rightly highlights renewable heat, flexible direct electrification, and waste heat recovery as priority technologies for industrial decarbonisation due to their high potential impact and alignment with long-term EU climate targets. However, without a mechanism to substantiate and enforce this prioritisation in the actual design of support schemes, the principal risks becoming ineffective in practice. Therefore, Point (77) should require Member States to explicitly demonstrate that any exclusion of these solutions is justified by clear and robust criteria (e.g., efficiency, cost-effectiveness, readiness), thereby ensuring that prioritised technologies are not sidelined unintentionally.

**Suggested amendment (in bold)**: "... Member States that seek to limit the scheme's eligibility to certain sectors or technologies, must... (iii) demonstrate that the limited scope does not exclude technological solutions that are more efficient than the technologies eligible under the scheme, especially those that must be prioritised according with point (73).



## • <u>Point (79)</u>: flexibility on the 36-month completion deadline - industrial heat pump projects and the grid connection delay

The proposed 36-month completion deadline is not suitable for investments in industrial heat pumps, which are essential for the decarbonization of industrial heat processes. Industrial heat pumps are a key solution in Europe's path towards decarbonization and meeting energy and climate targets. Over 60% of industrial energy consumption goes on heating, so increasing the use renewable energy sources through industrial heat pumps offers a promising way to reduce carbon emissions. Since these heat pumps are usually custom-built systems designed to meet specific requirements, the 36-month completion deadline might be not sufficient for their installation.

Additionally, delays in grid connection – something completely beyond the control of project developers – can also significantly impact project timelines across various technologies.

**Suggested amendment (in bold):** "the installation or equipment to be financed by the aid is in operation within [36] months after the date of granting, **except if operation is delayed due to grid connection, or in the case of industrial heat pump projects, which may require an extended deadline of up to 48 months due to their technical complexity**."

## • <u>Point (80)</u>: penalties schemes shall provide for exemptions and proportionality

While an effective system of penalties is essential to ensure accountability, the EHPA strongly advocates for a more balanced and flexible penalty mechanism within the aid scheme.

EHPA proposes that penalty schemes include exemptions or mitigations in cases where project delays or underperformance against thresholds – such as GHG reduction targets – are due to genuine, documented challenges.

A rigid penalty system risks undermining the deployment of industrial heat pump projects by penalizing well-intentioned efforts facing temporary setbacks. A more nuanced approach – one that differentiates between negligent delays and those caused by objective difficulties – would ensure fairness and provide regulatory predictability.



### • <u>Point (86)</u>: some electrification projects (like the ones listed in point (73)) don't fit ETS benchmark model

The investments in decarbonisation of industrial heat to be prioritized under point (73) (i.e., non-biomass-based renewable heat, flexible direct electrification, reuse of waste heat) cannot be assessed by reference to the ETS benchmarks, as in many cases such investments do not correspond to a full transformation of the industrial installation, but just of one/some of its processes. Therefore, the necessity requirement for these investments should be limited to point (86)(a), i.e., requiring the beneficiary to submit <u>only</u> funding gap calculation.

**Suggested amendment (in bold)**: "(*b*) for decarbonisation investments other than those to be prioritized under point (73), the scheme contains the following requirements..."

#### • <u>Point (90(c))</u>: align aid intensity for electrification with hydrogen investments

Currently, aid intensity for hydrogen investments (Point 90(a)) is set at 50%, while electrification investments using fully renewable electricity are capped at 35% (Point 90(c)). This discrepancy creates an imbalance and risks distorting the competitive landscape, giving hydrogen technologies an undue advantage over electrification solutions. Electrification via renewable electricity is a direct, efficient, and scalable solution that is critical for achieving Europe's climate and decarbonization targets, and aid support should reflect this at least at the same level as hydrogen.

There is no justification for providing a lower aid intensity in the sector mentioned in Point 90(c), particularly for investments in energy storage or electrification technologies. The current aid intensity difference between hydrogen and electrification unfairly undermines the ability of electrification technologies to compete on a level playing field, especially in industrial sectors where electrification is already a proven, efficient solution.

Moreover, the phrase "only fully renewable electricity" is problematic, as it could unintentionally exclude clean technologies - such as heat pumps – that facilitate greater use of renewable energy sources. To avoid creating uncertainty regarding the application of the scope of Point (90(c)), the "only fully" should be removed. **Therefore Point 90 (c) shall be revised as follow (in bold the amendments)**:

"(c) **[50]**% for investments in the production of renewable energy, energy storage or investment or investments in electrification that use **only fully** renewable electricity"..."



### • <u>Point (91)</u>: aid intensity for thermal energy storage project shall depend on the size of the project rather than the size of the enterprise

The aid intensity for thermal energy storage projects should be determined by the size and technical characteristics of the project, rather than the size of the enterprise. In the case of thermal storage, investment costs are primarily driven by the project's technical specifications and thermal capacity (MWth), not by the enterprise's scale. Therefore, it is essential to increase the aid intensity for electrification in general – and for thermal storage in particular – as it plays a crucial role in mid- and low-temperature industrial heating processes. This adjustment would also ensure consistency with the principles outlined in point (42).

Therefore, Point (91) shall include: "...the aid for energy thermal storage project should be increased by 20 percentage points projects up to 10 MWt and by 10 percentage points for aid granted to thermal storage projects from 10 MWt up to 20 MWt".

2. If you consider that the prioritisation of technologies for decarbonisation of industrial heat in this section on decarbonisation and energy efficiency is not appropriate (see point (73)), please explain and provide evidence for other criteria you would consider more appropriate.

#### • <u>Point (73)</u>: providing financial aid for natural gas-based solutions is misaligned with decarbonization goals

EHPA advocates that Point (73) clearly target investments towards industrial heat pump following the suggestions indicated below. Industrial heat pumps can reach temperatures of up to 200°C, making them suitable for high-temperature industrial process heat. They provide a clear alternative to natural gas, offering efficiencies that are up to four times greater than traditional fossil fuel-based heating methods. Industries such as dairy, paper, beverages, food processing, and various drying processes stand to benefit from retrofitting their systems with industrial heat pumps. These heat pumps not only improve energy efficiency and reduce primary energy consumption but also deliver a significant reduction in greenhouse gas emissions

#### <u>Therefore, the inclusion of natural gas as a viable technology undermines these</u> <u>goals and delays the necessary transition to cleaner, more sustainable solutions.</u>

The European Commission's Joint Research Centre (JRC) has pointed out that widespread adoption of industrial heat pumps will strengthen the European process



industry by making production more efficient, valorising local waste heat, lowering production costs, and increasing competitiveness. Moreover, industrial heat pumps support the EU's energy security by reducing dependence on imported fossil fuels, which is a key part of the broader strategy for energy independence.

The continued inclusion of natural gas-based solutions in the decarbonization mix, even under "duly justified cases," perpetuates dependence on fossil fuels and undermines the decarbonization effort. In many regions, financial incentives and tax structures still favour natural gas over electricity, even though industrial heat pumps are a far more efficient, scalable, and environmentally friendly solution. For this reason, EHPA strongly advocates for the removal of any provisions that allow financial support for natural gas-based solutions.

**Therefore, Point (73) shall be revised as follows:** "Investments aiming at the decarbonisation of industrial heat will prioritise (non-biomass-based) renewable heat **and/or**, **flexible** direct electrification **and/or the reuse of both on-site and off-site waste-heat**, in particular below 400°C.Nevertheless, in duly justified cases, the use of other technologies can also be accepted but natural gas must deliver energy savings of at least [30]% or greenhouse gas emission savings of at least [60]%".



# Section 6. Aid to ensure sufficient manufacturing capacity in clean technologies

- 1. Please provide any comments specific to section 6 of the draft framework ("Aid to ensure sufficient manufacturing capacity in clean technologies").
  - Point (122 lett (b)): list of key components eligible of aid shall be provided in a dedicated Annex of the Draft

EHPA welcomes any aid scheme that incentivizes investment projects for the production of heat pumps, which have already been fully recognized as a key instrument for achieving the EU's carbon neutrality goal by 2050, as already fully recognized in Article 4 (d) of the Net Zero Industry Act.

To ensure the growth of the heat pump market, it is crucial to provide incentives not only for heat pumps production but also for manufacturing of key components. Therefore, the <u>Commission shall include a list of key components eligible for aid</u> in a dedicated Annex attached to the <u>Draft</u>. EHPA strongly advocates for the introduction of such a list to provide clarity and support for manufacturers of those <u>key</u> components designed and used as a direct input for the production of the heat pumps in accordance with the aim of Point 122 lett (b) which clearly interlink the key components used for the production of the clean product recognized under lett (a).

<u>Moreover, EHPA recommends the inclusion of all components and technologies that can be used in combination with heat pumps – such as solar thermal systems, district heating components, heat recovery solutions, and cooling systems in the list. It is crucial to fund all solutions that promote further electrification.</u>

Therefore, Point (122) shall be read as follow: (a) the production of... heat pumps; (b) the production... of key components and technologies that can be used in combination with the clean technologies designed and primarily used ... as specified in a dedicated Annex"

The proposed list of key components of a heat pump that should be recognized as eligible for aid is provided below:

- a. Heat exchanger:
  - i. air-to-refrigerant (finned tubes)
  - ii. refrigerant-to-liquid: thin plates soldered or welded
  - iii. refrigerant-to-liquid/steam: tubed bundle HX



- iv. refrigerant-to-refrigerant: thin plates soldered or welded
- b. Valves:
  - i. Expansion Valves Usually EEV
  - ii. Four-Way-Valves
  - iii. Secondary control valves: check valves, flow controls, pressure controls
  - iv. Schrader- and shut-off valves
  - v. Components of the ref. cycle (filter dryer, sight glass ...)
- c. Fan motor/integrated fans
- d. Compressor
- e. Boards/inverter
- f. Refrigerants
- g. Lubricating oil
- h. Storage water tanks

#### • <u>Point (126)</u>: aid intensity and aid amount shall be aligned with the ones foreseen under the temporary crisis and transition framework

Following the good experiences with the temporary crisis and transition framework (here in after referred as to *the TCTF*) EHPA advocates to keep the maximum. state aid volume as defined in the TCTF also for the Draft. This would mean allowing aid ceilings of **EUR 150 million** for non-assisted areas, **EUR 200 million** for areas under Article 107(3)(c), and **EUR 350 million** for areas under Article 107(3)(a).

In addition, EHPA proposes harmonizing state aid intensity across different instruments – particularly grants and tax advantages – by applying uniform rates of 20% for non-assisted areas, 25% for Article 107(3)(c) areas, and 40% for Article 107(3)(a) areas. This stands in contrast to the TCTF, which applied a 5% differentiation between grants and tax incentives. Keeping the maximum. state aid volume as defined in the TCTF and harmonizing the state aid intensity would allow more flexibility and even greater support in uncertain market and economic conditions.

Therefore, Point 126 should be read as follow (in bold the suggestion): "Where the investment project takes place outside assisted areas, the aid intensity cannot exceed **20%** of the eligible costs and the aid amount cannot exceed **EUR 150 million** per project. Where the investment project takes place in an assisted area under Article 107(3), point (c), of the Treaty, the aid intensity cannot exceed **25%** of the eligible costs and the aid amount cannot exceed **25%** of the eligible costs and the aid amount cannot exceed **EUR 200 million** per project. Where the investment project is an assisted area under Article 107(3), point (c), of the Treaty, the aid intensity cannot exceed **25%** of the eligible costs and the aid amount cannot exceed **EUR 200 million** per project. Where the investment project takes place in an assisted area under Article 107(3), point (a), of the Treaty, the aid intensity cannot exceed **40%** of the eligible costs and the aid amount cannot exceed **EUR 350 million** per project."



2. The list of clean technologies in point (122) eligible for manufacturing aid should be defined by reference to identifiable market failures in ensuring resilient supply of such technologies. Please indicate whether you consider that the scope for aid for clean tech manufacturing equipment and components activities under section 6 should be aligned with the scope of the corresponding section of the <u>Temporary Crisis and Transition Framework</u> (as set out in the draft for consultation of stakeholder views), with the scope of the Annex of the <u>Net Zero Industry Act</u>, or with some other sub-set of such technologies. Please provide justification and any available evidence for the scope of projects for which you consider that State aid for additional manufacturing capacity is required.

#### • <u>Point (122 lett (a))</u>: heat pumps and geothermal energy technology are a key clean technology and <u>shall</u> be included in the list

Heat pumps play a critical role in achieving the European Union's climate and energy objectives by reducing greenhouse gas emissions, decreasing reliance on imported fossil fuels, and improving energy efficiency across various sectors.

Moreover, heat pumps are essential for the electrification and decarbonization of energy demand, directly contributing to the EU's energy transition. Their increased adoption will enhance energy security by diversifying energy sources and reducing dependence on imported fossil fuels while facilitating the use of local renewable energy. Given their pivotal role in achieving the EU's climate goals, strengthening energy security, and driving economic growth, heat pumps and geothermal energy technology shall be included in the list of clean technologies eligible for aid. Providing such support will accelerate their deployment and contribute significantly to building a sustainable and resilient European energy system. The Commission shall recognize the pivotal role of the heat pump manufacturing and component industry in maintaining the EU's technological leadership in clean energy.

The EU is currently at the forefront of this sector, and there is a real risk of losing this competitive edge if decisive action is not taken. <u>Recognizing heat pumps as a key clean technology and including them in the relevant lists would not only help safeguard this industrial leadership but also support the EU's broader climate and global competitiveness goals. In this light, state aid mechanisms can play a supportive role, but the core message is a call for strategic recognition and prioritization at the policy level</u>

Also, the Net-Zero Industry Act (here in after referred as to NZIA) recognizes their strategic importance. Specifically, Article 4(d) of the NZIA identifies heat pumps and geothermal energy technology as strategic net-zero technologies.



To ensure consistency across EU legislation, EHPA strongly advocates for aligning the list in Point (122(a)) with the Article 4 NZIA, by reflecting the technologies identified in Article 4(d).



#### Section 7. Aid to reduce risks of private investments

- 1. Please provide any comments specific to section 7 of the draft framework ("Aid to reduce risks of private investments in renewable energy, industrial decarbonization, clean technology manufacturing and energy infrastructure").
- <u>Point (9 (n)) and Point (149)</u>: (i) Include Energy Service Companies (ESCOs) and Energy as a Service (EaaS) providers in the definition of "private investors"; (ii) provide direct grants to these entities to ensure that the benefits are passed on to customers.

EHPA welcomes the recognition of third-party investment models in these guidelines, as they are crucial in mobilizing additional private capital for clean energy solutions. However, to maximize the effectiveness of these provisions, we strongly advocate for the explicit inclusion of Energy Service Companies (ESCOs) and Energy as a Service (EaaS) providers in the definition of private investors under Point 9(n). Moreover, we recommend that the aid provided to these entities should take the form of direct grants, ensuring that the financial incentives effectively reach the end users. Therefore, we propose that Point 149 be amended to explicitly include "direct grants" as an eligible financial instrument for these models.

ESCOs and EaaS providers play a crucial role in overcoming financial barriers to heat pump adoption by offering energy-efficient solutions without requiring end users to bear the high upfront costs of installation. These models facilitate access to clean heating and cooling technologies through performance-based contracts and service agreements, where customers pay for heating and cooling as a service rather than investing in the equipment themselves.

Relying solely on loans, equity, guarantees or special purpose vehicle as foreseen in Point 149 is insufficient for ESCO and EaaS models due to the high initial capital requirements and extended payback periods associated with energy savings. Without direct grants, ESCO and EaaS business models face significant challenges in scaling up, thereby limiting their scope in providing direct advantages to the final costumers.

Indeed, direct grants would enable ESCOs and EaaS providers to accelerate the deployment of heat pumps while ensuring financial viability. By covering part of the investment by providing direct grant, state aid measures would reduce risk exposure for investors and enhance consumer affordability, driving broader market adoption.

The NZIA and the revised Renewable Energy and Energy Efficiency Directives already emphasize the need for innovative financing mechanisms to scale up clean



energy technologies. Ensuring alignment with these policies by including ESCOs and EaaS providers in the definition of private investors and granting them direct financial support is critical to achieving the EU's climate and energy targets.

Failing to provide direct grants to ESCO and EaaS models would slow down the transition to sustainable heating solutions, as many consumers, particularly in the residential and industrial sectors, lack the financial capacity to invest in heat pumps outright. Including ESCOs and EaaS providers in the definition of private investors and ensuring they receive direct grants is therefore not only a logical policy step but a necessary measure to unlock private capital, accelerate heat pump deployment, and support the EU's decarbonization goals.

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