

BRIEFING FOR COMMISSIONER KADRI SIMSON

**MEETING WITH EUGINE PRESIDENT MR HERMANN
KRÖGER AND VP KARI HIETANEN**

29 June 2020 11:30, Virtual meeting

SCENE SETTER

According to their own description, “**EUGINE** is the voice of the European reciprocating **engine power plants industry** in regulatory and policy matters relating to energy. The association contributes to the development of an efficient, responsive, fast, reliable and environmentally sound European energy system¹”. As engines power plants historically ran with carbon-based fuels, the energy transition is of high relevance for EUGINE.

EUGINE, signed on 1 April 2019 the **Bucharest Declaration** of the Romanian Presidency of the Council of the EU on "Sustainable and Smart Gas Infrastructure for Europe". The signatories of the non-binding document highlight the potential of the gas infrastructure "to accommodate increasing shares of near-zero carbon hydrogen and Renewable gases". EUGINE recalled on that occasion that already today gas engines of more than 17 000 biogas plants are transforming renewable gas into renewable electricity and heat. In the coming years, more and more gas engines will be running on (at least a share of) renewable gas. Engine power plants can also be operated in a more flexible manner than larger power plants, which can be beneficial in times of increasing amounts of variable renewable energy in the system.

Mr **Hermann Kröger**, Senior Vice-President at MAN Energy Solutions has been elected as new President of EUGINE in October 2018.

He succeeded **Kari Hietanen**, Executive Vice-President of Wärtsilä Corporation, who led the association since its founding in 2014 and will continue to serve as Vice-President of the association, together with [REDACTED] at Caterpillar Energy Solutions.

¹ www.eugine.eu

LINES TO TAKE

- I recognise the role of gas in the EU economy, including in power production. Today gaseous energy consumption amounts to around 25% of the total EU energy consumption. Gaseous fuels, are a source of flexibility for the energy system increasingly based on intermittent RES generation and replacing more polluting fuels such as coal. Oil and oil products keep our transport running.
- Engine power plants could play an important role in the decarbonisation of gases, in particular in replacing natural gas with biomethane, biogas and hydrogen. I understand this was also the message EUGINE gave when signing the “Bucharest Declaration” on “Sustainable and Smart Gas Infrastructure for Europe”.
- Indeed, to remain credible and maintain a role in the future, natural gas has to decarbonise and address urgently methane emissions across the life cycle. Reduction of methane emissions and a low-emission gas infrastructure is indispensable if gases in general want to remain part of the future energy mix
- The Commission will deliver an integrated strategy to reduce methane emissions. This will not only cover the energy sector but also emissions from agriculture and waste. The strategy will focus on improved measurement, robust and transparent reporting and credible verification of methane emissions.
- The upcoming Strategy for Energy System Integration (“smart sector integration” announced in the Commission Work Programme for June 2020) will outline a vision to create a smarter, more integrated and more optimised energy system, in which all sectors can fully contribute to decarbonisation.
- Hydrogen is an important enabler of the transition to a carbon-neutral economy and can strongly contribute to the reshaping of the energy system in a way that ensures a more integrated and sustainable approach. We see a potentially important role for hydrogen to contribute to the energy system integration, through integrating larger shares of renewables in heavy-duty transport and carbon intensive industry, and providing a solution for large-scale storage, among others. Clean Hydrogen will therefore be an important element of that strategy, but its key role and its wider scope may deserve a specific approach.
- I am pleased to say that a specific hydrogen strategy is now envisaged to be linked to the Energy System Integration strategy, to underline how to upscale the demand and supply of renewable hydrogen, how to mobilise MSs, deployment and industry, how to advance the regulatory framework, how to strengthen the research agenda and how to position internationally.

DEFENSIVE POINTS

What support is available for gas projects from EU sources, including from the recovery package?

- Gas infrastructure projects (e.g. transmission and distribution, district heating) are eligible under some EU budget programmes proposed within the Multiannual Financial Framework for 2021-2027.
- This would include gas projects from the **4th list of Projects of Common Interest (PCI)** that are to be supported under Connecting Europe Facility.
- In addition gas infrastructure may be eligible in the following programmes that have been proposed by the Commission: **InvestEU** (e.g. transmission and distribution networks, district heating) and under the second pillar of Just Transition Mechanism (namely “**Just transition scheme**” – the same eligibility as in the InvestEU).
- **Under the recovery package**, (which includes changes to InvestEU and the Just Transition Mechanism) the Commission proposed i.e. green transition as a priority horizontally through the programmes that may support energy-related investments.
- In major grant/loan programme – **Recovery and Resilience Facility** – Commission proposed close alignment of future investment projects and reforms with the European Semester and the country specific recommendations, the National Energy and Climate Plans and the Just Transition Plans. All the projects that Member States are going to submit in their recovery and resilience

plans will be assessed against the background of their contribution to address challenges related to i.e. country specific recommendations and green transition. It considers also the assessment of gas related projects that Member States may include in the plans (e.g. networks, interconnectors, district heating).

- **[only if asked] The LIFE programme** is not directly envisaged to support gas infrastructure project. However, if a gas related project contribute to energy efficiency and demonstrates the net positive effects on climate (net GHG emissions reduction), then some dedicated “enabling” activities like capacity building, awareness raising, investments mobilisation etc. might be funded.
- **[only if asked] In ERDF regulation:** we have to wait for conclusion of negotiations between the Council and the European Parliament. The Council’s mandate envisages possibility of support for the replacement of coal-based heating systems by gas-based heating systems for climate mitigation purposes; investment in the distribution and transport of natural gas substituting coal.

What about the EIB and the financing of gas?

- EIB has played a key role in leveraging low carbon investments in the EU and beyond.
- EU’s climate and energy commitment needs is reflected in their new Energy Lending Policy, agreed in autumn last year. The EIB new Energy Lending Policy in relation to natural gas infrastructure investments will help the EIB fully align its activities with the climate ambition.
- In general, this policy for gas excludes i.e. funding of new

traditional gas-fired power generation, and phases out new natural gas pipelines. (In certain cases it allows for CO2 abatement for instance or support for low-carbon gases, like biogas, synthetic gas and hydrogen).

- There will be a limited transition period for the EIB to finish particular gas infrastructure projects that are under appraisal by the end of 2021. This would include a small number of gas projects from the 4th list of Projects of Common Interest (PCI), co-financed with the EU budget (e.g. the Connecting Europe Facility). Such projects need to be completed, in order to ensure security of supply and enhance competition.

What about funding of funding of gas projects through CEF?

- Electricity projects make up three thirds of the 4th PCI list mirroring the need to integrate a growing share of renewables to achieve carbon-neutrality. Most of the 32 remaining gas projects (out of 149 in total) were selected because they address major security of supply challenges.
- Any PCI can apply for funding from the Connecting Europe Facility. However, no project on the 4th PCI list will be automatically funded through CEF. Indeed, being on the PCI list is a precondition for CEF financing, however it is not a guarantee for funding.
- The European Green Deal is clearly reflected in the objectives for the on-going CEF Energy call for proposals. The budget available under the call aims to maximise its added value towards decarbonisation.

- Each project proposed for funding will undergo a thorough external evaluation against the set TEN-E and CEF criteria. CEF funding is a last resort for a project in case no market based financing is possible.
- The Commission does not decide alone on the funding of the projects, the Member States will need to approve the list of projects recommended for CEF funding.
- The TEN-E review to be presented by the end of the year will be crucial in ensuring that our infrastructure policy fully supports the Green Deal, including through definition of future funding priorities under CEF.