

Executive Vice-President Timmermans  
European Commission  
Rue de la Loi / Wetstraat 200  
1049 Brussels  
Belgium

**16 May 2022**

## **The Innovation Fund is not advancing European renewable energy technology**

*cc: European Commissioner for Energy Kadri Simson*

*cc: European Commissioner for Innovation, Research, Culture, Education and Youth Mariya Gabriel*

Dear Executive Vice-President,

The Innovation Fund is the EU's most impactful tool to drive clean energy innovation. But its award criteria put renewable projects at a structural disadvantage.

This is contrary to the original policy intent. And it undermines the REPowerEU objective of substituting fossil fuels with renewables.

The results of the 1<sup>st</sup> large-scale call make this clear. No renewable energy generation project won an award.<sup>1</sup> Just 1 renewables manufacturing proposal was awarded funding.

As a result the number of renewable applications for the 2<sup>nd</sup> large-scale call plummeted in both absolute and relative terms. Just 10% of proposals relate to renewables in the 2<sup>nd</sup> call - compared to 20% of proposals in the 1<sup>st</sup> call.

This makes it highly likely that the 2<sup>nd</sup> call will again channel funding predominantly to carbon capture and hydrogen.

It is a clear sign that the renewable sector has lost confidence in the Fund. The limited prospects of success mean that companies cannot justify the substantial resources needed to apply.

Renewables will always be the fundamental driver of the energy transition. The decarbonisation of industry, transport, heating & cooling – including hydrogen production – must be built upon primary energy sources which are renewable.

Continued European leadership in renewables innovation is equally essential for both energy security and Europe's wider strategic autonomy. Recent months have made this painfully obvious.

In light of the twin decarbonisation and energy security challenges facing Europe, it is critical that renewable technologies continue to become ever more performant, efficient and diverse, with a wider range of generation profiles, dispatchability and market applications.

The Innovation Fund can be Europe's single most effective tool in these efforts. It cannot be left unused.

We therefore call upon the Commission to:

1. Dedicate the 3<sup>rd</sup> call large-scale calls to renewable energy categories only – to restore confidence in the Fund within these sectors and correct for earlier calls
2. Adjust the rules of future calls so renewable energy projects may compete (see Annex)

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<sup>1</sup> Unless part of a wider carbon capture project. In such cases the carbon capture component will consume all or the large majority of allocated funds.

3. Create calls for intermediate-sized projects – with capital expenditure of between €7.5m and circa €60m

We would be glad of the opportunity to discuss this further with your team, and to work closely with your services to ensure that the 3<sup>rd</sup> large-scale call works for European renewables innovation.

In particular we stand ready to communicate any rule changes and their implications to our large networks and membership bases. This will ensure that the 3<sup>rd</sup> large-scale call receives a strong, diverse and innovative portfolio of renewable energy proposals.

Best regards,

*Philippe Dumas, Secretary General - European Geothermal Energy Council*

*Thomas Nowak, Secretary General - European Heat Pump Association*

*Prof. Dr. Dörte Fouquet, Director - European Renewable Energies Federation*

*Marcel Bial, Secretary General - European Solar Thermal Electricity Association*

*Greg Arrowsmith, Secretary General - The Association of European Renewable Energy Research Centers*

*Anton Schleiss, Coordinator, HYDROPOWER EUROPE & forthcoming ETIP HYDROPOWER - HYDROPOWER EUROPE*

*Rémi Gruet, Chief Executive Officer - Ocean Energy Europe*

*Pedro Dias, Secretary General - Solar Heat Europe*

*Giles Dickson, Chief Executive Officer - Wind Europe*



## **Annex: Fund rules which create structural barriers for renewable energy**

The following issues have been identified by representatives of the renewable energy sectors:

### **1. The Innovation Fund rewards the scale of individual projects above all else, to the detriment of a technology's longer-term scalability**

A project's greenhouse gas avoidance potential is considered in 2 of the 5 award criteria – 'GHG emissions avoidance potential' and 'cost efficiency'.

But an innovation will also contribute to decarbonisation via scaling up and mass deployment. Typically this potential for scale has a far greater decarbonization impact than the size of any single demonstration project. Yet the Innovation Fund only considers this in 1 of the 5 award criteria – 'Scalability'.

This double-weighting of a project's greenhouse gas avoidance potential means that the Innovation Fund favours once-off 'megaprojects' over smaller but potentially more readily scalable technologies.

Since renewable projects are often modular and can be demonstrated at relatively smaller scale, they are structurally disadvantaged in the Innovation Fund rules.

The diverging results of the 1<sup>st</sup> large and small-scale calls illustrate this. While no pure renewable energy generation project received an award in the large-scale call, 25% of successful small-scale proposals were renewable energy projects.

### **2. The Fund's rules underestimate the volume of GHGs avoided from renewables**

When assessing **renewable heating & cooling** projects, the Fund rules assume that these projects displace gas. However in practice these projects typically displace the use of oil & coal. The avoided GHG of these projects is therefore underestimated.

When assessing **renewable generation projects**, the Fund rules assume that these projects displace the average carbon intensity of the grid in 2030, unless they are dispatchable. But innovative renewable technologies are more likely to harness either new renewable sources or existing renewable sources in new locations. This means that have different generational profiles, provide extra system flexibility benefits and therefore deliver greater GHG avoidance.

While there is scope in the application form to include these additional avoided GHGs, in practice this can only have a very limited impact on a project's chance of success.

'Additional GHGs avoided' are only recognised in 1 of the 3 'GHG emission avoidance potential' sub-criteria. The Fund does not recognise these additional GHGs when scoring for a project's 'Absolute' or 'Relative' GHG avoided'. Consequently, a project's 'cost efficiency' score will also not reflect the additional avoided GHGs.

The above issues with the treatment of power and heating & cooling projects cascade through to the assessment of **renewable manufacturing plants**. Since the same methodology is used, the GHG avoided from the outputs of these manufacturing plants is systematically underestimated.

### 3. The assessment of projects' 'maturity' has tended to be very exacting – particularly on measures of financial maturity

The feedback from 1<sup>st</sup> call applications has been that evaluators are assessing financial maturity of renewable projects very tightly. It is believed that this is a reaction against the experiences of NER300, when some projects were not delivered.

In practice this has disadvantaged more innovative but potentially riskier projects – which have the greatest potential for breakthrough and the creation of new decarbonised sectors.

While it is natural to wish to avoid the experiences of the past, it is equally or even riskier to overly favour the most mature projects. The risk then is that the Innovation Fund finances projects which would have gone ahead anyway, irrespective of the Fund's support.

In such cases the Fund is not delivering any additionality. It is also very difficult to identify such cases, as the counterfactual is never known. This makes it extremely difficult to identify and correct this unintended policy outcome.

### 4. The Fund does not appropriately separate different renewable technologies

Renewable technologies have different challenges in terms of market development, consenting, financing and technological progression.

Ocean energy and hydropower have been grouped in the same 'sector' category, but in practice they have very little in common.

Putting them in the same category requires these separate technologies to compete directly against each other, and denies Europe the opportunity for demonstrations of a more diverse range of renewable technologies.

### 5. Greater sector-specific expertise is needed to inform the assessment of 'Degree of Innovation'

There have been instances where clearly innovative elements of proposals have not been scored as being particularly innovative.

This seems to stem from the fact that evaluators do not have detailed knowledge on each of the various renewable sectors & services.

Ahead of the 3<sup>rd</sup> call evaluation process, efforts should be made to ensure that there is at least 1 expert on each renewable sector, represented amongst the evaluators.

The Commission could also provide additional guidance on the nature of innovation within each renewable sector, based on its expertise within the Joint Research Centre and SET Plan.

