

Compliance of aid mechanism for energy produced from renewable sources and in high efficient cogeneration with the Community Guidelines with State Aid for Environmental Protection¹

No.	Conditions	Compliance of aid mechanism
42	1.5. Reasons for specific measure covered by these Guidelines	Complies The state aid is target to develop and support renewable energy increase in gross final energy consumption, as well as high efficient cogeneration.
48	1.5.6. Aid for renewable energy sources	Complies The objective of the aid mechanism implemented by Latvia directly derives from the Strategy “Europe 2020” and a set of the European Union regulatory enactments in the field of environment and energy, as well as the objective of Latvia to achieve a 40% proportion of such energy in gross final use by 2020 that would be produced by using RES has been defined in the policy planning documents and regulatory enactments of Latvia. (The objective to achieve a 49.3 per cent proportion of electricity produced by using renewable energy sources in electricity use by 2009 was determined as the objective for Latvia for the introduction of a set of energy environmental rights-related regulations pursuant to Directive 2001/77/EC.)
50		Complies The Cabinet of Ministers on 15 January 2002 has adopted the regulation No.27 „Regulations regarding rivers (sections of rivers) where, for the purposes of protection of fish sources, it is prohibited to build and restore hydroelectric dams and to make any kind of mechanical obstacles” ² . The merchant should add the opinion of State Environmental Office regarding the compliance with the provisions set out in the Regulation of Cabinet of Ministers of 15 January 2002 No. 27 (Cabinet Regulation No. 262, the requirement of Clause 9). In addition Latvia has developed and approved its River Basin Management

¹ [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52008XC0401\(03\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52008XC0401(03)&from=EN)

² Available in Latvian: <http://www.likumi.lv/doc.php?id=58603>

		<p>Plans for period from 2010 to 2015 also and has started to prepare the river basin management plans for the period from 2016 to 2021.³</p> <p>Even though a moratorium has been set for the aid mechanism and producers cannot receive new permits, it does not prohibit from the development of projects and installing of new electricity production powers. Meanwhile the list of rivers (sections of rivers), where it is prohibited to build and renew hydroelectric power station dams and to form any mechanical obstacles, that has been included in the legal regulation of Latvia should be taken into consideration.</p> <p>In total 145 small hydroelectric power stations operated in Latvia in 2013 that at the same time operate within the scope of the aid mechanism. On average, small hydroelectric power stations produce approximately 1% of gross electricity use required for Latvia.</p>
51	1.5.7. Aid for cogeneration and aid for district heating (DH)	<p>Complies</p> <p>Taking into account the fact that part of the producers, which operate within the scope of the aid mechanism (sell the produced electricity within the framework of the MP, receiving aid in the form of “feed-in” for the amount of the sold electricity), produce electricity in highly-efficient cogeneration, the aid mechanism implemented by Latvia provides direct investment for the achievement of the energy efficiency objective set for 2020. Part of merchants does not deal with power supply in centralised heat supply systems.</p> <p>According to the Cabinet Regulation No. 221 the support may be available only to the merchants that meet criterias on the highly efficient cogeneration. The merchants received the aid are obliged annually to submit a report to MoE, which is audited by an independent auditor. As well as the MoE has implemented additional monitoring of the beneficiaries. In the evaluation process of received annual</p>

³ Available in Latvian on the web page of State limited Liability Company "Latvian Environment, Geology and Meteorology Centre": <http://www.meteo.lv/lapas/vide/udens/udens-apsaimniekosana-upju-baseinu-apsaimniekosanas-plani-upju-baseinu-apsaimniekosanas-plani?id=1107&nid=424>

		<p>reports from the merchants is provided the control to ensure the compliance with the criterias of high-efficiency cogeneration. In addition the principle of waste management hierarchy is not violated. Within the scope of the aid mechanism implemented in Latvia, producers, which produce electricity in efficient cogeneration, have qualified for the aid by taking into account energy efficiency requirements laid down in Directive 2004/8/EC, including in respect of primary energy saving.</p>
71 - 72	<p>3. Compatibility of aid under Article 87(3) of the EC Treaty</p> <p>3.1. Compatibility of aid under Article 87(3)(c) of the EC Treaty</p>	<p>The objective of the aid mechanism implemented by Latvia directly derives from the Strategy “Europe 2020”, as well as the objective of Latvia to achieve a 40 % proportion of such energy in gross final use by 2020 that would be produced by using renewable energy sources (hereinafter – RES) has been defined in the policy planning documents and regulatory enactments of Latvia⁴.</p> <p>At the same time, pursuant to the Energy Development Guidelines for 2007-2016, the objective of Latvia is to increase safety of power supply, including:</p> <ul style="list-style-type: none"> - creation of circumstances for increase in electricity generation self-sufficiency; - promotion of self-sufficiency with increase of primary energy resources; and - increase of efficiency of thermal energy production equipment. <p>The following problems, which exist in the market and objectively it is not expected that the market would be capable of solving them, are being solved in the case of Latvia’s aid mechanism:</p> <p>1. Lack of interconnections — taking into account the insufficient self-sufficiency, the growing demand to electricity production powers, as well as insufficient electricity supplies from the neighbouring countries, including the neighbouring regions, it is necessary to develop both interconnections</p>

⁴ The objective to achieve a 49.3 per cent proportion of electricity produced by using RES in electricity use by 2009 was determined as the objective for Latvia for the introduction of a set of energy environmental rights-related regulations pursuant to Directive 2001/77/EC.

		<p>and additional powers so that it would be possible to cover the power demand at any moment. It should be taken into account that the work regime of large hydroelectric power stations depends on water fall in the River Daugava, therefore electricity supply of Latvia mainly depends on the Latvian and neighbouring power stations working in the base regime.</p> <p>2. Development of cogeneration stations by using renewable energy sources — taking into account the potential of local energy resources for the purpose of enhancing energy independence, measures aimed at the use of local energy resources have been implemented in the entire territory of Latvia, as well as outside the centralised heat supply.</p> <p>3. In order to ensure the production of energy by using renewable energy sources, a state-determined regulation in respect of mandatory requirements is not enough. Additionally required financial means for the development of environment-friendly energy production powers, taking into account the development and costs of such technologies, should be should be taken into consideration as well. Electricity production costs exceed the price of electricity in the market. Therefore broad use of such technologies would not be economically beneficial without additional support.</p>
101	3.1.6. Aid for renewable energy sources	<p>Complies</p> <p>The objective of the aid mechanism implemented by Latvia directly derives from the Strategy “Europe 2020” and a set of the European Union regulatory enactments in the field of environment and energy, therefore it is believed that aid is applied and mutilating impact is limited.</p>
102 - 104	3.1.6.1. Investment aid Aid intensity	<p>Complies</p> <p>As the result of state intervention to support the production of energy from RES or high efficiency cogeneration, Latvia is not only fulfilling the national RES targets, but also provides the adequate energy prices for all end-users. If there would not be the state support for "green" energy" stimulation, then end-users would be forced to buy the energy at a disproportionately high price,</p>

		<p>thus increasing the vulnerability of the socially disadvantaged groups.</p> <p>Higher aid intensity was not granted because none of the conditions specified in Paragraph 103 of the Guidelines is not meet.</p>
105 - 106	Eligible costs	<p>Complies</p> <p>Information on eligible costs is provided in Annex I chapter <i>Detailed analysis of electricity generating power plants that produces electricity from renewable energy sources or in high efficiency cogeneration, average total costs and revenue resulting from the production of energy</i> and Annex IV</p> <p>Detailed analysis of the production cost producing energy in cogeneration units is available in the study of SIA “EKODOMA”⁵. According to the study, the costs for the cogeneration plants producing electricity exceeds the market price of electricity depending on the used fuel and installed electrical capacity in the station:</p> <ul style="list-style-type: none"> • CHPP natural gas with a capacity of 4 Mwel - 62% with the depreciation, 33% without the depreciation; • CHPP natural gas with a capacity of 1 Mwel - 88% with the depreciation, 58% without the depreciation; • CHPP natural gas with a capacity of 0.2 Mwel - 119% with the depreciation, 64% without the depreciation; • biogas CHPP with a capacity of 2 Mwel - 227% with the depreciation, 160% without the depreciation; • biogas CHPP with a capacity of 1 Mwel - 249% with the depreciation, 164% without the depreciation; • biogas CHPP with a capacity of 0.5 Mwel - 264% depreciation to 166% without the depreciation; • Biomass CHPP with a capacity of 2 Mwel - 102% with the depreciation, -19% without the depreciation; • Biomass CHPP with a capacity of 1 Mwel - 183% with the depreciation, 10% without the depreciation;

⁵ Accessible at the Ministry of Economics website:
(http://www.em.gov.lv/images/modules/items/SIA_Ekodoma_atskaite.pdf)

		<ul style="list-style-type: none"> • Biomass CHPP with a capacity of 0.4 Mwel - 364% with the depreciation, 83% without the depreciation.
107	3.1.6.2. Operating aid	<p>Complies</p> <p>The objective of the aid mechanism implemented by Latvia directly derives from the Strategy “Europe 2020” and a set of the European Union regulatory enactments in the field of environment and energy.</p> <p>The aid term within the scope of the aid mechanism implemented in Latvia is limited in time and in respect of merchants that produce electricity from renewable energy sources; after the first ten years of operation the aid is reduced. The latter enhances entrance of electricity in the market.</p> <p>The introduced aid mechanism is designed to cover the difference between the costs of energy production by using RES or in high efficient cogeneration and the market price of energy.</p> <p>Information on the costs of electricity production has been provided in the Annex I chapter <i>Detailed analysis of electricity generating power plants that produces electricity from renewable energy sources or in high efficiency cogeneration, average total costs and revenue resulting from the production of energy</i> and in Annex IV.</p>
108 - 109		<p>Complies</p> <p>Within the scope of the aid mechanism implemented by Latvia merchants have received the right to sell electricity produced by them within the framework of the mandatory electricity procurement by receiving support for the volume of the sold electricity in the form of “feed-in”. However, the producer can choose not to sell it within the scope of the MP, but to sell in in the market for the price offered by the market.</p> <p>The moratorium to receive support in the form of MPC has been suspended until January 1, 2016.</p> <p>c) Within the scope of the aid mechanism implemented by Latvia, such merchants received the right to operate within the scope of the aid mechanism (to sell the</p>

		<p>produced electricity within the scope of the MP by receiving aid in the form of “feed-in” for the sold electricity volume) that planned to produce electricity by using biomass and biogas that has been obtained from biomass.</p> <p>Information on the costs of electricity production has been provided in the Annex I chapter <i>Detailed analysis of electricity generating power plants that produces electricity from renewable energy sources or in high efficiency cogeneration, average total costs and revenue resulting from the production of energy</i> and in Annex IV.</p>
110 - 111		<p>Not relevant.</p> <p>Latvia has chosen and implemented the Option 1.</p>
112	3.1.7. Aid for cogeneration	<p>Complies</p> <p>Taking into account the fact that part of the producers, which operate within the scope of the aid mechanism (sell the produced electricity within the framework of the MP, receiving aid in the form of “feed-in” for the amount of the sold electricity), produce electricity in highly-efficient cogeneration, the aid mechanism implemented by Latvia provides direct investment for the achievement of the energy efficiency objective set for 2020. Part of merchants does not deal with power supply in centralised heat supply systems.</p> <p>According to the Cabinet Regulation No. 221 the support may be available only to the merchants that meet criterias on the highly efficient cogeneration. The merchants received the aid are obliged annually to submit a report to MoE, which is audited by an independent auditor. As well as the MoE has implemented additional monitoring of the beneficiaries. In the evaluation process of received annual reports from the merchants is provided the control to ensure the compliance with the criterias of high-efficiency cogeneration.</p> <p>Prior to the creation of the implemented aid mechanism, responsible authorities of Latvia assessed the practice of state aid for the production of electricity existent in the European Union, assessed suitability of various aid mechanisms for the situation in</p>

		Latvia, including the assessment of mutilation risks of the trade and competition of these instruments. The aid mechanism, which provides for the sale of electricity produced by producers within the scope of MP by receiving aid in the form of “feed-in” for the amount of the sold electricity, was assessed as the most appropriate one to modernise the at that point ageing heat supply in the entire territory of Latvia, at the same time fostering the production of energy in highly-efficient cogeneration.
113		<p>Complies</p> <p>Within the scope of the aid mechanism implemented in Latvia, producers, which produce electricity in efficient cogeneration, have qualified for the aid by taking into account energy efficiency requirements laid down in Directive 2004/8/EC, as well as Directive 2009/12/EU, including in respect of primary energy saving.</p> <p>The above mentioned criteria is included in the Cabinet Regulation No. 221, it means that the support may be available only to the merchants that meet criterias on the highly efficient cogeneration. The merchants received the aid are obliged annually to submit a report to MoE, which is audited by an independent auditor. As well as the MoE has implemented additional monitoring of the beneficiaries. In the evaluation process of received annual reports from the merchants is provided the control to ensure the compliance with the criterias of high-efficiency cogeneration.</p>
114 - 116	<p>3.1.7.1. Investment aid</p> <p>Aid intensity</p>	<p>Complies</p> <p>Information on eligible costs is provided in Annex I chapter <i>Detailed analysis of electricity generating power plants that produces electricity from renewable energy sources or in high efficiency cogeneration, average total costs and revenue resulting from the production of energy</i> and Annex IV.</p> <p>Detailed analysis of the production cost producing energy in cogeneration units is</p>

		<p>available in the study of SIA “EKODOMA”⁶. According to the study, the costs for the cogeneration plants producing electricity exceeds the market price of electricity depending on the used fuel and installed electrical capacity in the station:</p> <ul style="list-style-type: none"> • CHPP natural gas with a capacity of 4 Mwel - 62% with the depreciation, 33% without the depreciation; • CHPP natural gas with a capacity of 1 Mwel - 88% with the depreciation, 58% without the depreciation; • CHPP natural gas with a capacity of 0.2 Mwel - 119% with the depreciation, 64% without the depreciation; • biogas CHPP with a capacity of 2 Mwel - 227% with the depreciation, 160% without the depreciation; • biogas CHPP with a capacity of 1 Mwel - 249% with the depreciation, 164% without the depreciation; • biogas CHPP with a capacity of 0.5 Mwel - 264% depreciation to 166% without the depreciation; • Biomass CHPP with a capacity of 2 Mwel - 102% with the depreciation, -19% without the depreciation; • Biomass CHPP with a capacity of 1 Mwel - 183% with the depreciation, 10% without the depreciation; • Biomass CHPP with a capacity of 0.4 Mwel - 364% with the depreciation, 83% without the depreciation.
117 - 118	Eligible costs	<p>Complies</p> <p>Information on eligible costs is provided in Annex I chapter <i>Detailed analysis of electricity generating power plants that produces electricity from renewable energy sources or in high efficiency cogeneration, average total costs and revenue resulting from the production of energy</i> and in Annex IV.</p> <p>Detailed analysis of the production cost producing energy in cogeneration units is available in the study of SIA “EKODOMA”⁷.</p>

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119	3.1.7.2. Operating aid	<p>Complies</p> <p>Taking into account the fact that the requirement in relation to the aid for activity being eligible only in respect of such highly-efficient cogeneration that produces energy to the public, the aid mechanism could be in conflict with Paragraph 119. Merchants already operating within the scope of the aid mechanism sell electricity either within the framework of the MP or on the market, and therefore the requirement in respect of electricity is observed. Nevertheless, in respect of thermal energy, merchants, which hand over thermal energy to other companies, operate within the scope of the aid mechanism as well. So far it was not necessary to apply the condition referred to in Paragraph 119 (b) of the Guidelines in respect of producers upon granting the right for participation in the aid mechanism.</p>
142 - 143	3.2. Incentive effect and necessity of aid	<p>Complies</p> <p>The aid measure complies with Paragraph 142 of the Guidelines, taking into account the fact that merchants, which participate in the aid mechanism change their operation by increasing the level of environmental protection. Without the aid mechanism, taking into account the limited possibilities to attract financing by an energy producer, including such, which already deals with power supply, it was expected that in the case of power depreciation, the equipment would be either disassembled or it would be replaced with such using fossil energy resources. It must be taken into account that objectively price difference still remains in favour of fossil energy resources (in the electricity production).</p> <p>Since the level of aid is determined based on the used technology in power plants and installed capacity, the amounts of aid requires the additional level of the compensation cost, not subsidizing the operational costs of business, which the company would have any way or not reimbursing the operational risks of normal business. The support for merchants was based on the application basis (the application forms are the Annexes of</p>

		Cabinet Regulation No.221 and Cabinet Regulation No.262). However the implementations of projects have been started after the Ministry's decision on the MP's rights.
144 - 146		<p>Complies</p> <p>Pursuant to the Electricity Market Law and regulations, which regulate the mandatory electricity procurement and guaranteed payment, issued on the basis of the referred to law, requirements for the information specified in the application mainly comply with requirements specified in Paragraph 146. The requirement about the hypothetical situation is not being determined, as well as indication of the required aid sum was not requested.</p> <p>Furthermore, part of merchants received the right to participate in the aid mechanism on the basis of a competition-enhancing tendering procedure (active aid scheme prior to suspension thereof), therefore Paragraph 144 and Paragraph 145 do not apply thereto.</p> <p>The merchants, who were eligible to participate in a support mechanism without competitive tender procedure, have been a high-efficiency cogeneration plants. Hypothetically the beneficiaries can be assessed using the data from table 14. Comparing the costs of generating electricity in the cogeneration power plants (84 to 113 EUR/MWh) with the market price (51.91 EUR/MWh), the Ministry found that the absence of aid in all cases would lead to the ineffective implementation of projects.</p>
161 - 162	<p>5. Compatibility of aid subject to a detailed assessment</p> <p>5.1. Measures subject to a detailed assessment</p>	<p>Complies</p> <p>Information on costs is provided Annex I in description chapter <i>Aid Volume and Paid Sums</i> and <i>Detailed analysis of electricity generating power plants that produces electricity from renewable energy sources or in high efficiency cogeneration, average total costs and revenue resulting from the production of energy.</i></p>
163		<p>Complies</p> <p>Latvia is proving all necessary information regarding the aid support for renewable energy producers and for energy produced</p>

Annex VI

		in high-efficient cogeneration.
189 - 191	6. Cumulation	Complies Information about aid cumulation is available in Annex I description chapter <i>Observance of Cumulative Requirements</i> .