Dear Sir/Madam

EGEC views on an EU Smart Sector Integration Strategy Inception Impact Assessment consultation

EGEC, the voice of the European geothermal industry, is a not-for-profit association representing the entire value-chain of the industry across 28 countries. It is included on the European Transparency Register number: 1145810335-07 Further information can be found at www.egec.org.

We welcome the opportunity to respond to the Inception Impact Assessment (IIA) on an EU Smart Sector Integration Strategy. Our observations and recommendations are:

1. **Purpose:** The aim of smart sector integration must be to accelerate the energy transition by increasing the pace of investment in the transition to a renewable heating, cooling and electricity to decarbonise buildings, transport, industry, services and agricultural emissions. This is the most cost-effective means to deliver 2030 and 2050 climate and energy targets as well as stimulating local economic growth, high-quality employment and replicable by other signatories to the Paris Agreement.

   We are concerned that this is not the priority. Rather, too much emphasis is placed on securing demand for the continued use of conventional fossil fuels or through unproven or undefined fossil fuels such as 'decarbonised gas' or 'renewable gas'. The EU must only support genuinely sustainable energy technologies that are proven to contribute to emission reductions at scale and within the necessary timeframe. An overestimation of the potential of these technologies would risk investing in obsolete infrastructure while diverting funding away from genuine solutions. To ensure this, robust legal definitions, scientific assessments on environmental impacts and genuine potentials are essential before these technologies can be included in the Smart Sector Integration Strategy or other energy and climate legislation.

2. **(Buildings) Renewable heating and cooling requires priority action:** Heat accounts for half of the EU's energy consumption. 80% of this heat comes from fossil fuels. Yet there is a significant opportunity to decarbonise 25% of the EU’s building stock within 5-7 years by switching district heating schemes to geothermal energy. Importantly, this has the added benefit of reducing household energy bills. ADEME assessed the levelised cost of heat in France and found that it was one of the cheapest means of providing high quality heat. Geothermal district heating costs were as low as €15 per MWh compared to fossil gas which cost €61 per MWh. Note, there was no carbon price applied to the fossil gas utilisation.

   It is important to avoid over-simplifications as there are few silver bullets for heat decarbonisation. Two key principles - energy efficiency first and renewable heat - should be applied to households and smaller buildings decarbonisation. The legal definition of renewable heat using a heat pump depends on whether it has a Seasonal Performance Factor (SPF) of 2.5 and above. This means they consume limited electricity to convert the largest source of energy into heating, cooling and/or hot water. Smart Sectoral Integration should be used to advance renewable heat and also revising the SPF number to 3 or above to
ensure energy efficiency first puts the least strain on the electricity generation system.

Schools and hospitals are a demand sources for heating and hot water. They are prime for integration with geothermal energy.

Fuel poverty, which often applies to the inability to pay heating bills, is a key issue for the EU. Between 50-125 million EU citizens cannot afford to adequately heat their homes.\(^1\) **Solving heat poverty requires the introduction of renewable heating and cooling alongside improvements in the energy efficiency of existing and new buildings.** Schools and hospitals are a large sources of demand for heating and hot water. They, together with social housing and fuel poverty buildings should be classed as energy infrastructure to be eligible for funding as Projects of Common Interest.

3. **(Mobility) Geothermal lithium:** Mobile batteries using lithium-ion are central to decarbonisation of surface transport, aviation and maritime sectors. Access to significant reserves of lithium are critical to cost reductions and domestic production. Lithium is a by-product of large-scale geothermal plants enabling the entire battery value-chain to be housed in the EU. To unlock this potential, **targets and incentives for domestic battery processing and geothermal lithium are a key feature of the sectoral integration legislative framework.**

4. **Upgrading market rules for gas markets:** Gas is the only fossil fuel included in multiple EU regulations. Because of this privileged position it is able to continue to benefit from numerous public subsidies for infrastructure, appliances and consumption. Article 176 of TEFU calls for an internal energy market that ensures security of supply, interconnectivity as well as the promotion of energy efficiency, energy savings and renewable energies. The focus on an internal market for fossil gas goes against these requirements. It prevents the heat sector from delivering cost-effective, reliable and renewable heating, cooling and electricity services in Member States.

We recommend a full scale review of gas market regulations with a view to **creating a legislative basis for an Internal Market for heat.** If ‘renewable gases’ are to have a place in the EU policy mix, they must be part of this renewable heat legislative base which provides a technology-neutral framework and level playing-field for the promotion of all renewable heating and cooling solutions.

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