



## State aid: Commission opens in-depth investigation into UK public measures in favour of Lynemouth power plant

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The European Commission has opened an in-depth investigation to assess whether UK plans to support the conversion of the Lynemouth coal power plant to operate entirely on biomass were in line with EU state aid rules. The Commission will investigate further to make sure that the public funds used to support the project are limited to what is necessary and do not result in overcompensation. It will also assess whether the positive effects of the project in achieving EU energy and environmental objectives outweigh potential competition distortions in the market for biomass. The opening of an in-depth investigation gives the UK and interested third parties an opportunity to submit comments. It does not prejudge the outcome of the investigation.

In December 2014 the UK notified plans to subsidise the conversion of the coal-fired Lynemouth power plant to operate on biomass. The plant would have the capacity to generate 420 MW of renewable electricity running exclusively on wood pellets. The project would receive support in the form of a so-called "Contract for Difference" fixing a certain sales price ('strike price') for the electricity. This means that the generator of the Lynemouth power plant will earn money from selling its electricity into the market. When the average wholesale price of electricity is below the strike price, the generator will receive a top-up payment. According to UK estimates, the project would operate until 2027 and supply about 2.3 TWh of electricity per year. The plant would require approximately 1.5 million tonnes of wood pellets per year mainly sourced from the United States and Canada.

In its preliminary analysis, the Commission considered that the parties' financial calculations and estimates regarding key cost parameters may be too conservative. These parameters, including the load factor of the plant (i.e. the actual electricity produced in a year compared to the maximum possible), its efficiency and the cost of wood pellets, significantly affect the project's rate of return. At this stage, the Commission therefore has concerns that the actual rate of return could be higher than the parties estimate and could lead to overcompensation.

Moreover, the amount of wood pellets to be imported from overseas is considerable, as compared to the volume of the global wood pellets market. Subsidising such a large volume of wood pellets could significantly distort competition in the biomass market. The Commission is therefore also concerned that on balance the measure's negative effects on competition could outweigh its positive effect on achieving EU 2020 targets for renewable energy.

The Commission will investigate further to see if its concerns are justified. It will give all interested parties the opportunity to express their views on these issues before finalising its assessment.

### Background

The Lynemouth plant is one of several projects selected under the Final Investment Decision Enabling for Renewables (FIDeR), a UK support measure for renewable energy projects. In July 2014, the Commission already [approved five FIDeR projects to develop offshore wind farms](#). In January 2015, the Commission also approved construction of the [Teesside CHP biomass plant](#)

The non-confidential version of the decision will be published in the [State aid register](#) on the [competition](#) website under the case number SA.38762 once eventual confidentiality issues have been resolved. The [State Aid Weekly e-News](#) lists new publications of state aid decisions on the internet and in the EU Official Journal.

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