

# Broadening subsidy scheme for renewable energy: from SDE+ to SDE++

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### **Introduction**

On 23 November 2018 the minister of economic affairs and climate policy announced that the scope of the main subsidy scheme for renewable energy in the Netherlands, the Stimulation of Sustainable Energy Production (SDE+), will be broadened (for further details please see "[Renewable energy subsidies renewed](#)").

Under the new scheme – which will be renamed the Stimulation of Sustainable Energy Transition (SDE++) but will continue to function as an operating grant – various technologies will no longer compete on the basis of amounts of renewable energy produced, but rather on the amounts of carbon dioxide (CO<sub>2</sub>) and other greenhouse gases that have been avoided. The goal of the SDE++ scheme is to reduce CO<sub>2</sub> and greenhouse gas emissions by 49% by 2030 (compared with 1990 levels). The SDE++ forms part of the government's Confidence in the Future coalition agreement (for further details please see "[New government's ambitious climate and energy initiatives](#)"), which references carbon capture and storage (CCS) as a technology that might be eligible for an operating grant.

The minister's letter contains the outline of the new scheme, which will be further developed in 2019. Members of the various industry sectors negotiating the national Climate Agreement (for further details see "[New milestones to combat climate change](#)") and other market parties will be consulted on eligible technologies, possible subsidy amounts per technology and any production or budget caps. Further, a market consultation will take place after the publication of the Netherlands Environmental Assessment Agency's impact calculations and draft advice of subsidy amounts in the first quarter of 2019.

### **Outline**

The main features of the new operating grant for unprofitable climate-friendly technologies include a focus on:

- greenhouse gas reduction;
- technology neutrality (which is also a cornerstone of the current SDE+ regime);
- competition for subsidies (through the continuation of the tender system); and
- long-term certainty for investors.

As under the current system, the SDE++ will stimulate the eligible technologies by subsidising the 'unprofitable surplus' (the difference between the cost price of the technology and the market price of the avoided CO<sub>2</sub>). Grants will be awarded on the basis of the amounts of subsidy per tonne of avoided CO<sub>2</sub>. For the calculation of the amount of CO<sub>2</sub> avoided in producing renewable electricity, the

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benchmark will be the average emissions of a modern, efficient gas plant.

## **Eligible technologies**

It has not yet been finally decided which technologies will fall under the SDE++. However, the minister has given some criteria for eligible technologies.

First, the technology must be commercially viable and have a significant scale (ie, it must be future-proof and capable of being deployed on a large scale and without subsidies in the near future).

Second, the following conditions must be met:

- The technology must be aimed at reducing the emission of greenhouse gases or at removing greenhouse gases from the atmosphere;
- The technology must have the potential to be used widely;
- There must be an unprofitable surplus; and
- There must be proof that the use of alternative, more direct CO<sub>2</sub>-combating measures, such as caps, taxes or prohibitions, will lead to significant implementation problems or unacceptable leakage of CO<sub>2</sub> during production.

The ministry previously indicated that it considers CCS a technology that should be eligible for SDE++ subsidies, which is a controversial view. In particular, environmental non-governmental organisations do not want the budgets for renewable energy subsidies to be depleted as a result of subsidies for this technology.

## **Financing the SDE++**

Technologies that do not meet the conditions mentioned above may be eligible to receive funds under other schemes, including:

- the energy investment allowance;
- the governmental investment fund Invest-NL (which will be operational in 2019);
- various investment subsidies, such as the investment grant renewable energy for small-scale heat solutions; and
- innovation schemes, such as the climate envelope for pilots and demonstrations.

The SDE++ will be financed in the same way as the current SDE+ system – through a levy on the use of electricity and gas. The expected increase in governmental levies and taxes on energy consumption has recently attracted widespread attention and the budgetary effects and allocation of the burden between the industry and consumers are being widely debated.

## **What is next?**

The first half of 2019 will see a lot of activity in developing and fine-tuning the new SDE++. In the second half of 2019, this new scheme will be presented to and discussed in the House of Representatives. Achieving the 49% CO<sub>2</sub> reduction threshold in the most cost-effective way will be a key challenge for Dutch politics and society as a whole for many years to come. The SDE++ regime, with its technology-neutral competition for the cheapest way to avoid or reduce CO<sub>2</sub> will be a key instrument to achieve this.

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