

Summer update SDE++ subsidy scheme: 2022 and beyond

Stek | Energy & Natural Resources - Netherlands



VEIL JACOBS

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Background

In the Netherlands, producers of renewable energy or carbon-reducing technologies can apply for a subsidy on the basis of the Stimulation of Sustainable Energy Production and Climate Transition subsidy scheme (currently called the "SDE++ subsidy scheme" and previously called the "SDE+" and "SDE" scheme). The 2022 application round is open from 28 June 2022 (nine o'clock in the morning Central European Time (CET)) until 6 October 2022 (five o'clock in the evening CET).

The SDE++ subsidy scheme is an operating grant for the roll-out of technologies for renewable energy production and technologies that reduce carbon dioxide (CO₂) emissions. The evaluation of the previous SDE+ scheme shows that, in 2020, 33% of the renewable energy production in the Netherlands was partially subsidised because of this scheme. Therefore, the subsidy scheme makes an important contribution to the realisation of the CO₂ reduction goals (compared with 1990 levels) as set by the Dutch government in the Dutch Climate Act. The reduction goal is currently set at 49% by 2030 and 95% by 2050 but will soon be increased to at least 55% in 2030 and 0% (ie, climate neutrality) in 2050.

Main characteristics of SDE++ subsidy scheme

Producers can receive an SDE++ subsidy during the operating period of the project (12 or 15 years depending on the specific technology). The SDE++ subsidy compensates for the difference between the cost price of the sustainable energy or the reduction in CO₂ emissions and the revenue. This is referred to as the "unprofitable surplus". For each technology that is eligible for a SDE++ subsidy, a base amount has been set. The base amount is the maximum cost for the production of renewable energy or for the reduction of CO₂ emissions. Producers can choose to apply for a lower base amount in their SDE++ subsidy application, which will increase their chance of receiving a SDE++ subsidy.

For the 2022 SDE++ round, a budget of €13 billion is available for all technologies. In the five phases of the round, the ceiling of subsidy intensity per tonne of CO₂ saved will gradually increase. For example, phase one (between 28 June 2022 and 11 July 2022) awards grants for technologies that have a subsidy intensity of €65 per tonne of CO₂ saved, while phase five (between 26 September and 6 October) grants awards for a subsidy intensity of €300 per tonne of CO₂ saved. Hence, producers of technologies with a lower subsidy intensity per tonne of CO₂ saved can submit their applications earlier, leaving less budget for the more expensive technologies.

The phased approach has the advantage of reducing CO₂ emissions in a cost-efficient manner, while also optimising government funds. However, subsidising the most cost-efficient techniques has a drawback – less cost-effective but promising technologies (eg, geothermal energy and green hydrogen) that only bear fruit in the long term are currently being pushed aside by highly cost-effective technologies (eg, solar energy).

In a letter to Parliament of 1 July 2022,⁽¹⁾ the minister for climate and energy policy (the minister) looked back on the SDE++ 2021 and found that the largest chunk of the total budget was awarded to solar projects (96% of these solar projects were roof-mounted). The remaining budget was awarded to projects that contribute to the heat transition, such as electric boilers, heat pumps and biomass. Furthermore, carbon capture and sequestration projects (CCS), carbon capture, utilisation and storage projects (CCSU), hydrogen electrolyser projects and advanced new fuel projects obtained their first SDE++ subsidy.

The minister reiterated his intention to amend the subsidy scheme to strike a better balance between the promotion of short-term cost-effectiveness and support for more expensive technologies that are considered crucial for meeting long-term climate goals.

Amendments in 2022

The recent evaluation of the previous SDE+ subsidy scheme (until 2020) has led to, among other things, the following changes to the SDE++ scheme in 2022:

- the budget of the SDE++ 2022 is increased to €13 billion. Therefore, more projects are eligible for a subsidy;
- the SDE++ scheme opened earlier and for a longer period;
- promising new technologies are introduced, such as industrial electric heat pumps with 3,000 full-load hours, hybrid glass furnaces and hydrogen installations with a direct line to a wind or solar park;
- CCS is considered to potentially reduce carbon emissions significantly in the short term. The ceiling for CCS in the 2022 SDE++ is increased by 1.5 metric tonnes to a total of 8.7 metric ton. The realisation period for CCS facilities will be extended from five to six years;
- the realisation period for new geothermal energy facilities is extended from four to five years or six years (only for projects specifically aimed for the urban built environment), the economic life span of geothermal projects is extended to 30 years, and the scheme distinguishes different technologies;

- already subsidised solar photovoltaic system projects are often not realised due to a lack of available grid transport capacity. The 2022 SDE++ will allow a feed-in capacity corresponding to a maximum of 50% of peak capacity. With this adjustment more renewable energy projects can be realised; and
- in line with the Climate Agreement, the SDE++ was initially designed to achieve 35 terawatt hours of production from onshore wind and solar by 2025. The ceiling of 35 terawatt hours will be reached sooner than expected. Therefore, the SDE++ 2022 sets the ceiling at 33.5 terawatt hours to leave sufficient room for the upcoming years. In this way, the continuity of renewable electricity projects is guaranteed.

Outlook for 2023

As per 2023, the SDE++ scheme will use "fences" to give less cost-efficient technologies a better chance of obtaining a subsidy. A fence refers to a demarcation (per sector, groups of technologies or domains) for which a minimum SDE++ budget is reserved. In the context of the SDE++, a fence ensures that technologies with a higher subsidy intensity are more likely to be considered for funding because a minimum budget is set aside for the technologies within that fence.

In a letter to Parliament of 2 December 2021,⁽²⁾ the former state secretary of economic affairs and climate policy set out why the government prefers domain-specific over sector- or group-specific fences – namely because:

- domain-specific fences provide the desired level of detail (domains are smaller than sectors and larger than technological categories);
- domain-specific fences provide a balance between generic and specific steering; and
- there is relatively little overlap between different domains.

In line with this, the minister in his 1 July 2022 letter contemplated applying the following domain-specific fences:

- low-temperature heat (€750 million);
- high-temperature heat (€750 million);
- molecules including green gas, advanced renewable fuels and hydrogen production (€750 million);
- CCS/CCSU; and
- electricity.

The fences for CCS/CCSU and electricity will be set at zero (no budget reserved), which means that the largest chunk of the total subsidy budget will be attributed outside of the fences.

The minister stresses that a domain-specific fence still offers the flexibility to transfer any unused subsidy budget to other domains. Therefore, the SDE++ subsidy budget can be fully used in each opening round.

As per 2023, the maximum subsidy intensity within the fences will be increased from €300 to €400 per tonne of CO₂ saved as to stimulate low short-term cost-ineffective techniques like aqua-thermal, solar-thermal and residual heat.

An evident drawback of the system of fences will be an overall decrease in the cost-effectiveness of the SDE++ subsidy scheme, as the reservation of budget for certain domains somewhat decreases the competition between the different domains and technologies. Incentives to innovate technologies may also be impacted. However, the domain-specific fences are quite broadly formulated. Within a domain there is still competition on cost-effectiveness between the technologies. For example, projects aimed at hydrogen from electrolysis will have to compete with bio-liquid natural gas projects (an advanced renewable fuel). The minister has indicated that if there is too little competition (ie, too few applications) with respect to one domain, the reserved budget will be decreased and vice versa. It remains to be seen whether the competition within domains is still too strong to give the less cost-effective – but promising – technologies a chance. The new system will be evaluated shortly after the 2023 opening round.

Comment

Achieving the targeted climate goals in a cost-effective way will be a key challenge for Dutch politics and society as a whole. Due to the introduction of new categories, more budget, higher ceilings and the use of fences, a better balance could be struck within the SDE++ subsidy scheme between the stimulation of cost-effectiveness in the short term and the supporting of more expensive technologies that are considered crucial for meeting the long-term climate targets.

For further information on this topic please contact [Veij Jacobs](mailto:veij.jacobs@stek.com) at [Stek Advocaten BV](https://www.stek.com) by telephone (+31 20 530 52 00) or email (veij.jacobs@stek.com). The [Stek Advocaten BV](https://www.stek.com) website can be accessed at www.stek.com.

Endnotes

(1) Minister for climate and energy policy, *Verzamelbrief SDE++*, 1 June 2021.

(2) Minister for climate and energy policy, *Verloop SDE++ 2021, openstelling SDE++ 2022 en voorstel aanpassing SDE++ 2023*, 2 December 2021.