

Modernisation Fund

Annual report

2021

Estonia

1. Introduction

Estonia submitted to the EIB two priority investment proposals for financing from the Modernisation Fund on the 14th of September 2021. The EIB made positive decision on financing both on the 11th of October 2021.

The first disbursement from EIB was received in the amount of EUR 24 590 000 on the 15th of December 2021. The sum was distributed between two schemes accordingly:

| EIB priority investment | | | | | |
|--|------------------------------------|--------------------------------|---------------------------------|---------------------------------|--|
| Scheme | Submission of the proposals | EIB decision on schemes | Decision on disbursement | Disbursement¹ | Responsible ministry |
| “Programme for improvement of energy efficiency and renewable energy use in public sector buildings” (Modernisation Fund reference number MF 2021-2 EE 0-001) | 14.09.2021 | 11.10.2021 | 06.12.2021 | 15 530 000 EUR | Ministry of Finance |
| “Energy-efficient low-emission public transport programme” (Modernisation Fund reference number MF 2021-2 EE 0-002) | 14.09.2021 | 11.10.2021 | 06.12.2021 | 9 060 000 EUR | Ministry of Economic Affairs and Communication |

1.1. “Programme for improvement of energy efficiency and renewable energy use in public sector buildings”

The main objective of the “Programme for improvement of energy efficiency and renewable energy use in public sector buildings” is to improve energy efficiency in public buildings in Estonia. The scheme covers two subprograms targeting energy efficiency in buildings of the central government and buildings of the municipalities. In relation to these subprogrammes, the targeted beneficiaries are owners of buildings occupied by central government, and the local municipalities, respectively. The scheme covers the period of 2021-2030 and expected Modernisation Fund funding is EUR 170 000 000.

¹ Received on 15.12.2021

The form of financing is grant, which will be given for energy saving investments, renovation or in some case replacement and accompanying construction works.

In accordance with the State Budget Strategy 2022-2025, the Ministry of Finance bears responsibility for development of conditions related to use of MF support, and for planning of the budget of the programme as well as subprogrammes. Based on, and in accordance with, the relevant regulations of the Minister of Public Administration, State Shared Service Centre will perform tasks related to implementation of the programme / sub-programmes.

The programme is necessary for contributing to the objectives of the:

- Energy Sector Development Plan 2030 (ENMAK 2030);
- Estonia's National Energy and Climate Plan 2030 and the Long-term building renovation strategy of Estonia. The objectives include, in addition to serious energy efficiency improvement, reduction of greenhouse gas (and other) emissions related to the use of public sector buildings, and improvement of the „interior climate“ of the buildings (in relation to health impact).

The scheme contributes to the key objectives of NECP 2030 as follows: Achievement of an 80% reduction in GHG emissions by 2050 (a new climate neutrality objective was set in the strategy Estonia 2035 after the adoption of the NECP) and 70% by 2030:

- energy and climate measures by sector
 - building stock

Redevelopment of public sector (central and local government) buildings, business and residential premises and street lighting.

The expected contribution of the scheme in achieving the objectives related to public sector buildings in the NECP: The total floor area of public sector buildings to be renovated using MF support in the period 2021-2030 to achieve the energy efficiency target will be approximately 255 000 - 425 000 m². The expected impact of the scheme has been estimated (based on 2020 prices) at approximately 1500 - 2500 MWh/year energy savings, 500 - 1000 CO₂ t/year CO₂ emission reduction, and 15 000 – 25 000 m² renovated buildings net floor area per 10 million € of investment support (the overall investment may be larger in relation to works financed by the beneficiary).

1.2. “Energy-efficient low-emission public transport programme”

The main objective of the “Energy-efficient low-emission public transport” programme is to improve energy efficiency in public transport in order to support the decarbonisation of the transport sector. The scheme is targeting the development of energy efficient public transport projects and comprising an electric ferry, electric trains and electric buses. The investment is intended to replace less efficient fossil fuel vehicles. The scheme covers the period of 2021-2030 and expected Modernisation Fund funding is EUR 130 000 000.

Ministry of Economic Affairs and Communications is responsible for development of conditions related to use of MF support, and for planning of the budget of the programme. In the case of the low-emission ferry, the investment will be implemented by Estonian Transport Administration (ETA). Under the subprogramme targeting the low-emission buses based on, and in accordance with, the relevant decrees of the Minister of Economic Affairs and Infrastructure, the Estonian Environmental Investment Centre will perform tasks related to implementation of the grant scheme to support the uptake of low-emission buses in public transport. Under the subprogramme targeting the electric trains Ministry of Economic Affairs and Communications shall provide the finances for the procurement conducted by train company AS Eesti Liinirongid (100% state owned). AS Eesti Liinirongid is obligated to provide the procured trains to, if and when, in the future a different railway undertaking would provide passenger train services under public service obligation instead of AS Eesti Liinirongid.

The programme and the proposed investments are in accordance with the following state level strategies:

- Draft of Transport and Mobility Master Plan 2021-2035 – which states as a strategic goal to reduce transport's energy consumption from 9,4 TWh to 8,3 TWh, of which renewable energy is 24%; reduction of transport emissions from 2400kt to 1700kt CO₂e. In addition there are specific goals, which include the increase of passenger rail mode share; reduction of emissions in the maritime sector (specifically regarding connections to the main islands) and also to decarbonise all public transport. When the Master Plan is submitted to the Parliament for discussion, we will send the relevant link and updated information.
- ENMAK 2030 (energy development plan) – goal to increase share of renewable energy in transport,
- National energy and climate plan (https://ec.europa.eu/energy/sites/ener/files/documents/ee_final_necp_main_en.pdf) – in line with the main goals as well as specific measures (see 5.2 from plan and table 40): TR 2, TR5, TR 10, TR 13, TR 15, TR 16.

2. Implementation

Planning of the Modernisation Fund resources form a part of the Estonian State Budget Strategy which is based on national objectives and the objectives of sectoral development plans. Ministry of the Environment is the coordinator of the Modernisation Fund related issues. The implementation of the schemes is carried out by the ministries responsible for the theme.

The Government Regulation will establish the general conditions for the usage of the Modernisation Fund. The regulation is under the development and will be adopted during the first quarter of the year 2022.

The preparations for the implementation of the schemes have started:

1) Improvement of energy efficiency and renewable energy use in public sector buildings

The rules for the applicants and applications of the open call for energy efficiency in buildings of the central government sector is presented to stakeholders for comments. The first call is

intended to be launched on the III quarter of 2022. The content of the next call (energy efficiency projects of central government or local government buildings) will be decided before the announcement of each call, taking into account both the amount of Modernisation Fund disbursement and the energy efficiency investment needs of public buildings and other possible sources of funding.

2) Energy-efficient low-emission public transport

In accordance with the strategic plans and decisions of the government, the first investment under the programme will be related to the energy-efficient low-emission ferry (due to the period of availability of complementary funding from other budget revenue). The sequence and timing of investments into energy-efficient electric passenger trains and zero-emission buses depends on the updated forecast of available MF support as well as on updated information concerning other potential sources of funding.

- Ferry

The market research for procurement of an extended concept design service for a ferry (incl. Preparation for procurement, answering inquiries, evaluation of procurement results, conclusion and performance of a contract) has been carried out and the preparation of procurement documents started.

Procurement of shipbuilding supervision services from a ship classification society (incl. preparation for procurement, response to inquiries, evaluation of procurement results, conclusion and performance of contract) and procurement of the design and construction of a ferry (incl. preparation for the procurement, evaluation, answering inquiries, etc.) is planned to the second half of the year 2022.

- Electric trains

The procurement procedure has been carried out and factory for construction is chosen. The decisions of the government on some technical details is expected in July 2022, afterwards the construction works of the trains will start.

- Electric busses

Usage of the Modernisation Fund support is planned for the later programme years, depending on the available amounts of support.

3. Information on each investment

| “Programme for improvement of energy efficiency and renewable energy use in public sector buildings” | |
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| 1.2 Number of completed investments | 0 |
| 1.2 Number of discontinued investments | 0 |
| 2.1. total investment triggered (total investment costs); | Estimated cost within 2021-2030: 170 mln € (without VAT) (Total volume will be updated based on the results of negotiations of the “Fit-for-55” package of |

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| | legislative proposals that would have impact on the Modernisation Fund related legal framework) |
| 2.2. dates and amounts of payments from the Modernisation Fund to the project proponent or the scheme managing authority; | No payments from the Modernisation Fund to the project proponent or the scheme managing authority have been made by the Ministry of the Environment. |
| 2.3. amounts received from the Modernisation Fund by the beneficiary Member State but not yet paid to the project proponent or the scheme managing authority; | 15 530 000 EUR |
| 2.4. any amounts recovered by the beneficiary Member State from the project proponent or the scheme managing authority, and the dates of recovery; | 0 |
| 2.5. an assessment of the added value of the investment in terms of energy efficiency and modernisation of the energy system, including information on the following: (a) the energy saved in MWh; (b) expected cumulative MWh saved by the end of the investment lifetime; (c) the greenhouse gas emissions saved in tCO ₂ ; (d) expected cumulative tCO ₂ saved by the end of the investment lifetime; (e) the additional renewable energy capacity installed, if applicable; (f) achieved leverage of funds (total amount invested in relation to the contribution from the Modernisation Fund); | 0 The information on the assessments will be available after the decisions of the projects as the project applications will provide the assessment on energy savings and decrease greenhouse gas emissions. |
| 3.1 Milestones achieved since the previous annual report | Not applicable as applies to projects, and not to schemes. |
| 3.2 Expected entry into operation | Not applicable as applies to projects, and not to schemes. |
| 3.3 Identified or expected delays in implementation | Not applicable as applies to projects, and not to schemes. |
| 3.4 Identified or expected changes in eligible costs, technology applied or results of an investment | Not applicable as applies to projects, and not to schemes. |
| 4.1 Confirmation of co-financing from private sources | Not applicable as applies to projects, and not to schemes. |

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| “Energy-efficient low-emission public transport programme” | |
| 1.2 Number of completed investments | 0 |

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|---|--|
| 1.2 Number of discontinued investments | 0 |
| 2.1. total investment triggered (total investment costs); | 130 000 000 EUR (without VAT) (Total volume will be updated based on the results of negotiations of the “Fit-for-55” package of legislative proposals that would have impact on the Modernisation Fund related legal framework and on the updated forecast of the volume of MF revenues) |
| 2.2. dates and amounts of payments from the Modernisation Fund to the project proponent or the scheme managing authority; | 0 |
| 2.3. amounts received from the Modernisation Fund by the beneficiary Member State but not yet paid to the project proponent or the scheme managing authority; | 9 060 000 EUR |
| 2.4. any amounts recovered by the beneficiary Member State from the project proponent or the scheme managing authority, and the dates of recovery; | 0 |
| 2.5. an assessment of the added value of the investment in terms of energy efficiency and modernisation of the energy system, including information on the following: (a) the energy saved in MWh; (b) expected cumulative MWh saved by the end of the investment lifetime; (c) the greenhouse gas emissions saved in tCO ₂ ; (d) expected cumulative tCO ₂ saved by the end of the investment lifetime; (e) the additional renewable energy capacity installed, if applicable; (f) achieved leverage of funds (total amount invested in relation to the contribution from the Modernisation Fund); | 0 The information on the assessments will be available after the concrete investment objects are contracted or projects approved. |

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| 3.1 Milestones achieved since the previous annual report | Not applicable as applies to projects, and not to schemes. |
| 3.2 Expected entry into operation | Not applicable as applies to projects, and not to schemes. |
| 3.3 Identified or expected delays in implementation | Not applicable as applies to projects, and not to schemes. |
| 3.4 Identified or expected changes in eligible costs, technology applied or results of an investment | Not applicable as applies to projects, and not to schemes. |
| 4.1 Confirmation of co-financing from private sources | Not applicable as applies to projects, and not to schemes. |