

MODERNISATION FUND
Accelerating the transition to climate neutrality

IC Recommendation on Non-Priority Proposal

**MF 2022-1 CZ 1-003 “Scheme (Part 1C):
Modernization of energy sources to natural gas without CHP ”**



1. Background

The Modernisation Fund was set up pursuant to Article 10d of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC (ETS Directive).

Detailed rules on the operation of the Modernisation Fund (MF) are set in the Commission Implementing Regulation (EU) 2020/1001 of 9 July 2020 laying down detailed rules for the application of Directive 2003/87/EC of the European Parliament and of the Council as regards the operation of the Modernisation Fund supporting investments to modernise the energy systems and to improve energy efficiency of certain Member States (Implementing Regulation).

In accordance with Article 10d(6) of the ETS Directive, where an investment in the modernisation of energy systems, which is proposed to be financed from the Modernisation Fund, does not fall into the areas listed in paragraph 2 of Article 10d, the investment committee shall assess the technical and financial viability of that investment, including the emission reductions it achieves, and issue a recommendation on financing the investment from the Modernisation Fund.

The Investment Committee may issue a recommendation on financing the investment from the Modernisation Fund, if the conditions specified in Article 7(7) of the Implementing Regulation are met.

2. Investment proposal

Pursuant to Article 4(1) of the Implementing Regulation, on 20/01/2022, the Czech Republic (the "beneficiary Member State") submitted to the EIB the investment proposal " Scheme (Part 1C): Modernisation of energy sources to natural gas without CHP non-priority investments of the Programme "HEAT" (Modernisation of thermal energy supply systems)" for which it envisages a contribution from the MF (MF reference number MF 2022-1 CZ 1-003).

The key objective of the investment proposal is decommissioning of coal-fired energy sources, in particular, replacement of the energy source with a change of the fuel used in the systems without CHP. In addition, the objective of the scheme is to improve systems energy efficiency and reduce GHG emission.

Overall, the implementation of the scheme will help in supporting the shift from renovation of coal-fired units towards technologies with lower carbon footprint. The proposed thermal capacity of the units is between 20-50 MW, with the vast majority of the units approximately 40 MW capacity.

The measures (technologies) that are proposed for the scheme are as follows:

- Transition from lignite to natural gas: 43 hot water boilers and 5 steam boilers.
- Transition from hard coal to natural gas: 15 hot water boilers and 2 steam boilers.

The long-term goal is to achieve a complete coal phase-out in the heating sector. The proposed investment will ensure that any project supported by the scheme will be combined with decommissioning of coal-fired units.

Final beneficiaries shall be owners of district heating networks based in the Czech Republic and holding a business license for Central Heating Supply Systems and District Heating Network operation. Owners without the license are eligible if the network is operated by a licensed entity.

The location of the investment activities is countrywide with additional attention for coal-dependent regions.

The investment proposal indicates that the expected emission reduction resulting from the implementation of the scheme is 1 550 ktCO₂e/year

3. Compliance with the conditions for non-priority investment.

- a) Czech Republic has demonstrated that the investment complies with the requirements laid down in Article 10d(1) of the ETS Directive.
- b) Czech Republic has sufficient funds available according to the statement of the available funds referred to in Article 5(1) of the Implementing Regulation and after deduction of any amounts to be disbursed for investments already confirmed in accordance with Article 6(9) of the Implementing Regulation.
- c) The share of the funds allocated to priority investments is at least 70 % of the total amount of funds used by Czech Republic, as defined in Article 7(7)(c) of the Implementing Regulation.
- d) Czech Republic has confirmed in writing that up to 70% of the relevant costs of investments will be supported with resources from the Modernisation Fund and the remaining costs will be financed by private legal entities.
- e) Czech Republic has provided evidence that the investment proposal has obtained State aid clearance in accordance with the Commission decision C(2022) 553.
- f) Czech Republic has confirmed in writing that the investment complies with any other applicable requirements of Union and national law.
- g) According to the information provided by the beneficiary Member State, the amounts requested from the Modernisation Fund are not intended to cover the same costs of the investment as those financed by another Union or national instrument.

4. Recommendations

- a) The Investment Committee recommends financing of the investment proposal “Scheme (Part 1C): Modernisation of energy sources to natural gas without CHP non-priority investments of the Programme “HEAT” (Modernisation of thermal energy supply systems).” from the Modernisation Fund as a non-priority investment.
- b) The requested amount of the first disbursement from the Modernisation Fund for the scheme is EUR 40 000 000.

5. Justification for recommendations

- a) The investment proposal meets conditions specified in Article 7(7) of the Implementing Regulation.
- b) The European Investment Bank has carried out a technical and financial due diligence of the Implementing Regulation and transmitted to the Investment Committee, as required by Article 7, (2)-(6). The due diligence was based on documents and information provided by the Beneficiary Member State.
- c) Based on the information provided and having considered the scope of the investment proposal, including its costs, the EIB expressed the positive opinion on the technical, financial and expected emission reduction aspects of the investment proposal.
- d) The representative of the European Investment Bank has endorsed financing the investment proposal from the Modernisation Fund.
- e) The investment proposal is consistent with Article 10d(1) of Directive 2003/87/EC. It supports modernisation of energy systems by the means of supporting transition from fossil fuels to lower carbon intensity fuels and improving energy efficiency. It is also consistent with the EU 2030 climate and energy policy and it is in line with the objectives set out in the NECP for the Czech Republic.
- f) The investment proposal is consistent with the relevant elements of Article 10d(6) of Directive 2003/87/EC. The investment will lead to an improvement of energy efficiency of the systems due to higher efficiencies of the new boilers compared to existing boilers. A 10% increase in energy efficiency is one of the conditions stated in the programme for investments to be eligible for MF funding. The implementation of the scheme will help in supporting the shift from coal-fired units towards technologies with lower carbon intensity.

6. Suggestions regarding application of the financing instruments (if applicable)

The Investment Committee has no suggestions regarding the application of the financing instruments.

Investment Committee, 7 April 2022