

# **MODERNISATION FUND**

Accelerating the transition to climate neutrality

## **IC Recommendation on Non-Priority Proposal**

**MF 2022-1 RO-1-001 “Construction of a Natural Gas-Fired  
Combined Cycle Power Unit  
of approx. 850 MW at Isalnita”**



## **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 27/01/2022, Romania (the “beneficiary Member State”) submitted to the EIB the investment proposal “Construction of a Natural Gas-Fired Combined Cycle Power Unit of approx. 850 MW at Isalnita” for which it envisages a contribution from the MF (MF reference number 2022-1 RO 1-001).

The investment proposal concerns the construction of a gas-fired combined cycle power unit of 850 MW at Isalnita as part of the restructuring plan of the Oltenia Energy Complex

The objective of the project is to replace existing lignite capacities with a gas-fired power unit hence reducing the GHG emissions. The project is part of the decarbonisation plan and restructuring plan of the Oltenia Energy Complex and is complementary to other power generation projects (solar and gas) aiming at phasing out 3,570 MW of coal-fired power generation. The restructuring plan of the Oltenia Energy complex has been approved by the Commission on 26 January 2022.

The development and decarbonisation plan includes the following components:

- Phase out of the existing lignite capacities.
- Investments in 1,325 MW of gas-fired power generation (850 MW at Isalnita and 475 MW at Turceni) and approximately 746 MW of photovoltaic.

The investment proposal indicates that the expected emission reduction resulting from the implementation of the project will result in savings of primary energy of 645,853 toe/yr. The expected emission reduction resulting from the implementation of the project is estimated at 3,047,463 tCO<sub>2</sub>/yr.

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

- a) Romania has demonstrated that the investment complies with the requirements laid down in Article 10d(1) of the ETS Directive.
- b) Romania 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 Romania, as defined in Article 7(7)(c) of the Implementing Regulation.
- d) Romania 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) Romania has provided evidence that the investment proposal has obtained State aid clearance in accordance with the Commission decision C(2022) 553.
- f) Romania 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 “Construction of a Natural Gas-Fired Combined Cycle Power Unit of approx. 850 MW at Isalnita” from the Modernisation Fund as a non-priority investment.
- b) The requested amount of the disbursement from the Modernisation Fund for the project “Construction of a Natural Gas-Fired Combined Cycle Power Unit of approx. 850 MW at Isalnita” (MF 2022-1 RO 1-001) is EUR 253 125 302.

## 5. Justification for recommendations

The Investment Committee deems support from the MF is justified for the following reasons:

- 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 objective of the investment proposal is to replace existing lignite capacities with a gas-fired power unit hence reducing the GHG emissions. The project is part of the decarbonisation plan and restructuring plan of the Oltenia Energy Complex and is complementary to other power generation projects (solar and gas) aiming at phasing out 3,570 MW of coal-fired power generation.
- e) The investment proposal will support the phase-out of lignite capacities and participate to baseload and peak control. As such, the project will support the flexibility and security of power supply hence contributing to the modernisation of the power system in Romania. In addition, the project will provide savings in primary energy.
- f) The investment proposal is consistent with Article 10d(1) of Directive 2003/87/EC as it supports the modernisation of the energy systems and it is in line with the objectives set out in the NECP for Romania.
- g) The representative of the European Investment Bank has endorsed financing the investment proposal from the Modernisation Fund.

## **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