

MODERNISATION FUND
Accelerating the transition to climate neutrality

IC Recommendation on Non-Priority Proposal

MF 2022-2 CZ 1-001
**“Renewable Modernisation of Energy Sources for Residential Sector
(HOUSEnerg Programme)”**



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 16/08/2022, the Czech Republic (the “beneficiary Member State”) submitted to the EIB and the Investment Committee the investment proposal "Renewable Modernisation of Energy Sources for Residential Sector (HOUSEnerg Programme)" for which it envisages a contribution from the MF (MF reference number 2022-2 CZ 1-001).

The scheme supports replacing inefficient fossil fuel based domestic heating sources with renewable heat sources:

- a) heat pumps (electrically driven)
- b) low-emission biomass boilers and heaters
- c) solar thermic systems for hot water heating,
- d) connection to an efficient heat supply system.

The final beneficiaries of the scheme are owners of single-family residential houses and owners of the apartment buildings.

The scheme will be implemented in the territory of the Czech Republic in the years 2022 – 2030.

A large portion of emissions caused by the single-family houses and apartment buildings derives from inefficient fossil fuel heating systems. To prevent this, the investment will give the possibility to replace old inefficient carbon intensive heating source with a heat pump, or a boiler/stove supplied by biomass or thermal water heating systems thus allowing selection of low-emission, ecological, efficient, modern heat sources with the possibility to combine with PVs or solar thermic water heating.

The beneficiary Member State estimated the expected greenhouse gases emissions reductions of the scheme at the level of 3 619 851 tCO₂ per year.

3. Compliance with the conditions for non-priority investment

- a) The beneficiary Member State has demonstrated that the investment complies with the requirements laid down in Article 10d(1) of the ETS Directive.
- b) The beneficiary Member State 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 European Investment Bank confirmed that 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) The beneficiary Member State has confirmed in writing that up to 70% of the relevant costs of an investment will be supported with resources from the Modernisation Fund and the remaining costs are financed by private legal entities.
- e) The beneficiary Member State has provided evidence that the measures under the investment proposal:
 - do not constitute State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union, or
 - are exempted from the State aid notification in accordance with Regulation (EU) No 651/2014.
- f) The beneficiary Member State has confirmed in writing that the investment complies with any other applicable requirements of Union and national law.
- g) The beneficiary Member State has confirmed in writing that 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. Recommendation

The Investment Committee recommends financing of the investment proposal “Renewable Modernisation of Energy Sources for Residential Sector (HOUSEnerg Programme)” from the Modernisation Fund as a non-priority investment.

The requested amount of the first disbursement from the Modernisation Fund for the scheme is EUR 300 000 000.

The Beneficiary Member State has indicated an expected Modernisation Fund funding for the investment proposal of EUR 1 000 000 000.

5. Justification for recommendation

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 aspects of the investment proposal, including expected emission reduction.
- d) The representative of the European Investment Bank has endorsed financing the investment proposal from the Modernisation Fund.
- e) It is consistent with Article 10(d)1 of Directive 2003/87/EC as it contributes to improving the energy efficiency of individual households - reducing their emissions, increasing the use of renewable energy, promoting good practices in the field of heat sources, and thus changing the level of pollution and improving air quality.
- f) The proposed scheme will contribute to the 2030 climate and energy framework objectives of the Czech Republic National Energy and Climate Plan (NECP).
- g) The investment is consistent with the State Energy Policy from 2015 (which is being currently assessed and updated by the Ministry of Industry and Trade of the Czech Republic). The implementation of Investment will contribute to the increase in the amount of energy from renewable energy sources in new single-family houses and apartment buildings.

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, 25 October 2022