

MODERNISATION FUND
Accelerating the transition to climate neutrality

IC Recommendation on Non-Priority Proposal

**MF 2022-2 PL 1-001
“RES - Heat sources for district heating”**



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 01/08/2022, Poland (the "beneficiary Member State") submitted to the EIB and the Investment Committee the investment proposal "RES - heat sources for district heating" for which it envisages a contribution from the MF (MF reference number 2022-2 PL 1-001).

The proposal is a new nationwide, multiannual scheme targeted to invest in the construction and/or conversion of heat production plants with an installed output of at least 2 MW thermal and based on renewable energy sources (RES), using the following RES technologies: geothermal heat plants, large-scale heat pumps and solar heat collector plants.

The objectives of the scheme can be summarised as follows:

- The short-term goal is to create a perspective of low-carbon investments in the district heating sector. The scheme should send a clear signal that low carbon investment in heat generation is the only possible option.
- The medium-term goal is to support fuel switching, district heating renovation and storage technologies that would significantly reduce greenhouse gases (GHG) emissions and increase energy efficiency.
- The long-term goal - and beyond the scheme - is to completely phase out coal from the district heating sector. This scheme ensures that each supported project

will relate to the decommissioning of any coal-fired units in district heating systems by 2035.

The beneficiaries are entrepreneurs conducting economic activity in the field of heat generation or generation of heat and electricity, implementing a project within the district heating system.

The scheme will be implemented in the territory of Poland in the years 2023 – 2030.

The new renewable energy technologies will replace energy generated from coal (80%) and natural gas (20%). The Beneficiary Member State foresees that the implementation of the scheme will result in reduction of 387 062 tons of CO₂eq 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 Poland, 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 investment proposal it is 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 “RES - heat sources for district heating” 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 22 222 222.

The beneficiary Member State has indicated an expected Modernisation Fund funding for the investment proposal of EUR 444 444 444.

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, the EIB expressed the positive opinion on the technical and financial aspects of the investment, including expected emission reduction.
- d) The representative of the European Investment Bank has endorsed financing the investment proposal from the Modernisation Fund.
- e) The proposed scheme complies with the requirements laid down in Article 10d(1) of the ETS Directive, i.e., supports the energy efficiency improvements, achieves GHG reductions and it is in line with the objectives set out in the Poland's National Energy and Climate Plan. The scheme contributes to the objectives of the Modernisation Fund as it helps the beneficiary Member State to meet the 2030 climate and energy targets and plays an active role in EU transition to climate neutrality by reduction of greenhouse gas emissions.

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