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MODERNISATION FUND

Accelerating the transition to climate neutrality

MODERNISATION FUND **EIB CONFIRMATION OF PRIORITY INVESTMENT**

ref. MF 2024-1 HU 0-002

Beneficiary Member State: Hungary

Investment Proposal: The modernisation and development of renewable energy based district heating systems.

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 (the “ETS Directive”).

The legal basis for the operation of the Modernisation Fund is set out in 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 (the “Implementing Regulation”).

In accordance with Article 10d(6) of the ETS Directive, the European Investment Bank (the “EIB”) is to confirm whether a proposed investment falls into a priority area. The EIB may confirm the proposal as a priority investment if the conditions specified in Article 6(7) of the Implementing Regulation are met.

2. Investment proposal

Pursuant to Article 4(1) of the Implementing Regulation, on 14/02/2024 Hungary (the “beneficiary Member State”) submitted to the EIB an investment proposal “The modernisation and development of renewable energy based district heating systems.” for which it envisages a contribution from the Modernisation Fund (Modernisation Fund reference number MF 2024-1 HU 0-002).

The investment proposal concerns a large-scale scheme for the period 2024-2028 relating to support the gradual conversion of existing fossil fuel-based district heating systems in Hungary to sustainable, decarbonised, mainly renewable energy based systems.

The scheme will support of authorised heat producers to develop new heat generation units based on renewable energy, modernise and extend currently operated renewable based heat generation units, digitalise already existing heat generation facilities.

The beneficiary Member State has requested funding of EUR 39 700 000 for a first disbursement under the proposed large-scale scheme.

The beneficiary Member State has indicated a total expected Modernisation Fund funding for the investment proposal of EUR 132 275 132.

The main objective of the investment is to increase the amount of heat generated based on renewable energy sources in order to support the decarbonisation of district heating sector in Hungary.

Energy efficient DH systems are included in the objectives and measures of the Long-term Strategy and National Energy and Climate Plan (NECP) for Hungary which sets the goal of modernization of energy networks, including district heating systems based on support from the Modernisation Fund.

3. Compliance with the conditions for 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 as it supports the modernisation of the energy system and energy efficiency and it is in line with the objectives and measures set out in its NECP.
- b) According to the information provided by the beneficiary Member State and pursuant to Article 10d(2) Directive 2003/87/EC, the investment is considered as a priority investment as it falls under the priority area b) heating and cooling from renewable sources.
- c) The beneficiary Member State has sufficient funds generated before 31 December 2027 available from the auctioning of allowances referred in Article 10(1), the third subparagraph of Directive 2003/87/EC - 2% for the requested disbursement 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.
- d) The beneficiary Member State has provided evidence that the measures under the investment proposal:
 - are exempted from the State aid notification in accordance with applicable State aid rules.

- e) The beneficiary Member State has confirmed in writing that the investment complies with any other applicable requirements of Union and national law.
- f) 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.
- g) According to the information provided by the beneficiary Member State, the duration of the scheme does not exceed five years.

4. Conclusions

The EIB has assessed the investment proposal based on the information submitted by the beneficiary Member State in accordance with Article 4 and Annex 1 of the Implementing Regulation and it has concluded that the investment proposal has met the conditions specified in Article 6(7) of the Implementing Regulation.

In view of the above, and in reliance on the information and evidence provided and the confirmations given by the beneficiary Member State as described at paragraph 3 above, the EIB confirms the proposal “The modernisation and development of renewable energy based district heating systems.” (Modernisation Fund reference number MF 2024-1 HU 0-002) as a priority investment.

This confirmation, being based in part upon an exemption from State aid notification that is limited in time, is made on the assumption that the investment proposal, if it constitutes State aid after the expiry of such time limit, will continue to be exempted from State aid notification or that the beneficiary Member State will either obtain State aid clearance or cease to finance the investment proposal with Modernisation Fund funds at that time.

This confirmation is without prejudice to the requirement for a disbursement decision to be made pursuant to Article 10d(3) of the ETS Directive.

European Investment Bank
Luxembourg, 12th March 2024