

MODERNISATION FUND
Accelerating the transition to climate neutrality

IC Recommendation on Non-Priority Proposal

MF 2024-2 LT 1-001 - Klaipeda LNG terminal electrification project



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 and revised on 1 January 2024 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 12/08/2024, Lithuania (the "beneficiary Member State") submitted to the EIB the investment proposal " Klaipeda LNG terminal electrification project " for which it envisages a contribution from the MF (reference number MF 2024-2 LT 1-001).

The project covers the construction of shore-side electricity (SSE) infrastructure providing grid electricity to the Klaipeda FSRU.

The main objective(s) of the proposal can be summarised as follows:

- The objective of the project is the construction of shore-side electricity infrastructure, which will be providing electricity to the Klaipeda FSRU (Floating Storage Regasification Unit), partially covering the power needs of the LNG (Liquefied natural gas) terminal.
- Currently the FSRU uses dual fuel engines burning diesel and LNG to meet its electricity needs.
- The use of shore-side electricity will result in reducing the use of the dual fuel engines and thus reducing by around 26.5% to 15.2% (depending on the hypothesis and the

emission intensity of the electricity used) the total CO2 emissions of the FSRU during its operation.

The investment beneficiary is AB KN Energies. It is a state-owned public company established in Lithuania.

The project will be located in Klaipeda in Lithuania. The investment will be implemented from Q2 2025 until Q1 2028. The infrastructure will operate for 17 years from 2028 to 2044. Based on the current legal framework, it is foreseen that the LNG terminal will be operating until 2044.

3. Compliance with the conditions for non-priority investment

- a) Lithuania has demonstrated that the investment complies with the requirements laid down in Article 10d(1) of Directive 2003/87/EC;
- b) Lithuania has sufficient funds available in the relevant category or subcategory of funds according to the statement of the available funds referred to in Article 5(1) and after deduction of any amounts to be disbursed according to information specified in Article 6(10) and on the basis of the recommendations already issued in accordance with paragraph 9 of this Article;
- c) The European Investment Bank confirmed that the share of the funds allocated to priority investments is at least 80% of the revenue from allowances referred to in Article 10(1), third subparagraph, and from allowances transferred to the Modernisation Fund under Article 10d(4) of Directive 2003/87/EC used by Lithuania;
- d) The financing complies with the fourth sentence of the second sub-paragraph of Article 10d(6) of Directive 2003/87/EC;
- e) The beneficiary Member State has provided evidence that the investment proposal is exempted from the State aid notification in accordance with applicable State aid rules¹.
- f) Lithuania has confirmed in writing that the investment complies with any other applicable requirements of Union and national law;
- g) Lithuania 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.

¹ This exemption from State aid notification is limited in time. 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.

4. Recommendations

The Investment Committee recommends financing of the investment proposal “Klaipeda LNG terminal electrification project” from the Modernisation Fund as a non-priority investment.

The requested amount from the Modernisation Fund for the scheme is EUR 6 000 000.

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, and assessment of expected emission reductions and transmitted it to the Investment Committee, as required by Article 7 (2)-(6) of the Implementing Regulation.
- 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 project is aligned with the objectives of the National Energy and Climate Plan (NECP) for Lithuania.

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, 22 October 2024