

The role of the funding mechanisms in delivering the European Green Deal

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ERCST

Roundtable on
Climate Change and
Sustainable Transition



CEEP
Central Europe Energy Partners

ERCST & CEEP cooperation: overview



ERCST

Roundtable on
Climate Change and
Sustainable Transition

Cooperation started in 2018:

- To provide discussion within and between Member States
- To highlight issues to be addressed
- To provide updates to stakeholders

Activities undertaken so far:

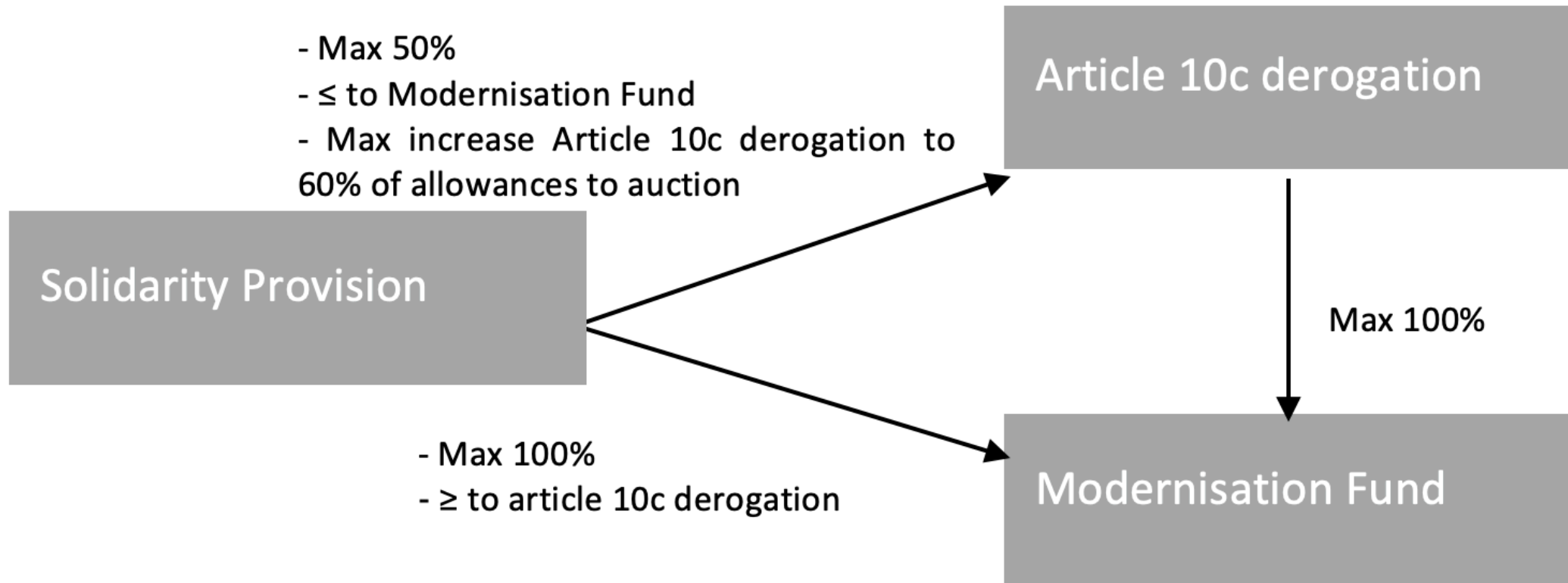
- **Seminars, workshops:** in Brussels (x2), Bucharest, Prague, Sofia and Warsaw
- **Stakeholders consultation:** representatives of Member States + representatives of 70 companies and associations (*surveys/interviews*)
- **An update of the yearly paper:** 3 reports

Overview funding mechanisms in Phase 4

	Member States	Size	Investment Areas	% of costs that can be covered	Investment selection	Governance
Solidarity Provision	16 Member States <i>(2013 GDP per capita <90% of the Union average)</i>	798.5m EUAs <i>(10% of total quantity of allowances to be auctioned)</i>	/	/	/	Member State
Innovation Fund	All Member States	450m EUAs	<ul style="list-style-type: none"> • Low-Carbon technologies • CC(U)S • Product substitution • Renewables and storage 	Up to 60%	EU-wide Call for proposals	European Commission
Article 10c Derogation	10 Member States <i>(2013 GDP per capita <60% of the Union average)</i>	648m EUAs <i>(Up to 40% of each Member State's EUAs to be auctioned)</i>	Electricity generating installations covered by EU ETS	Up to 70%	National competitive bidding process <i>(not necessary for small-scale projects)</i>	Member State <i>(Commission approves process)</i>
Modernisation Fund	10 Member States <i>(2013 GDP per capita <60% of the Union average)</i>	310m EUAs <i>(2% of total quantity of EUAs)</i>	<p>Priority areas: in renewables, energy efficiency, electricity transmission grids, interconnections and Just Transition</p> <p>Non-priority areas 'consistent with 2030 framework and Paris Agreement'</p>	<p>Priority up to 100%</p> <p>Non-priority up to 70%</p>	<p>Selected by Member State</p> <p>Approved by EIB and Investment Committee</p>	Mixed

Funding mechanisms: flexibility

Can be used by the 10 central and eastern European Member States which are eligible for all three funding mechanisms

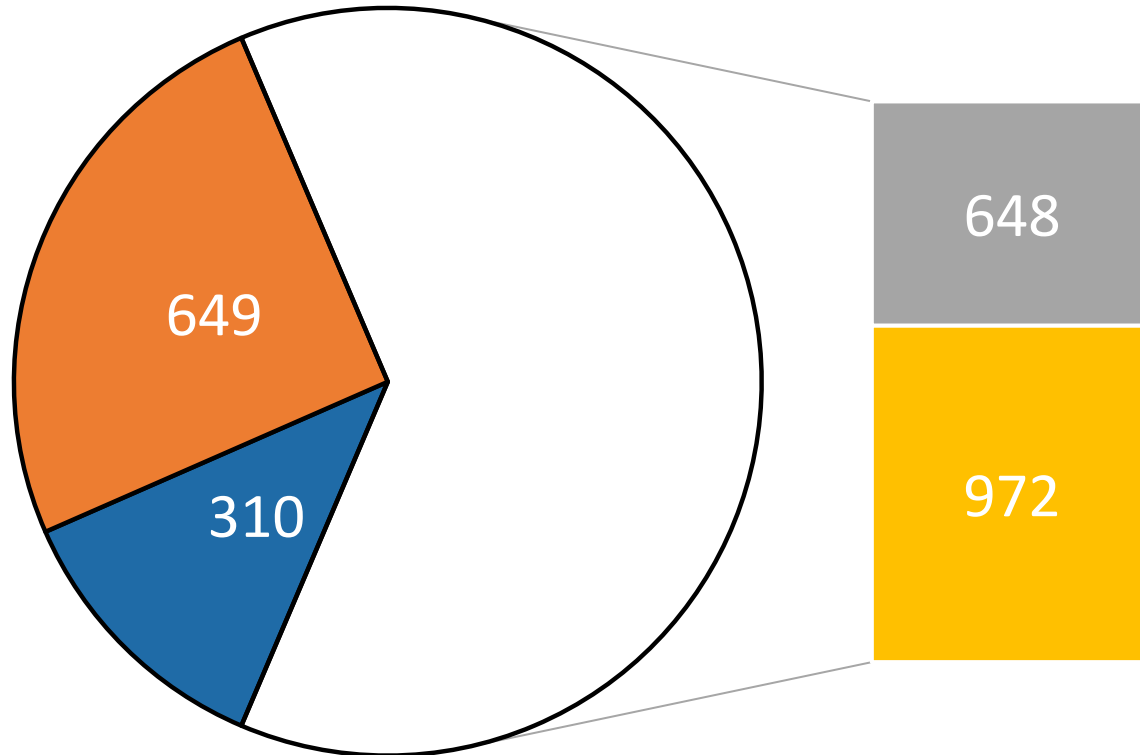


Funding mechanisms: use of flexibility

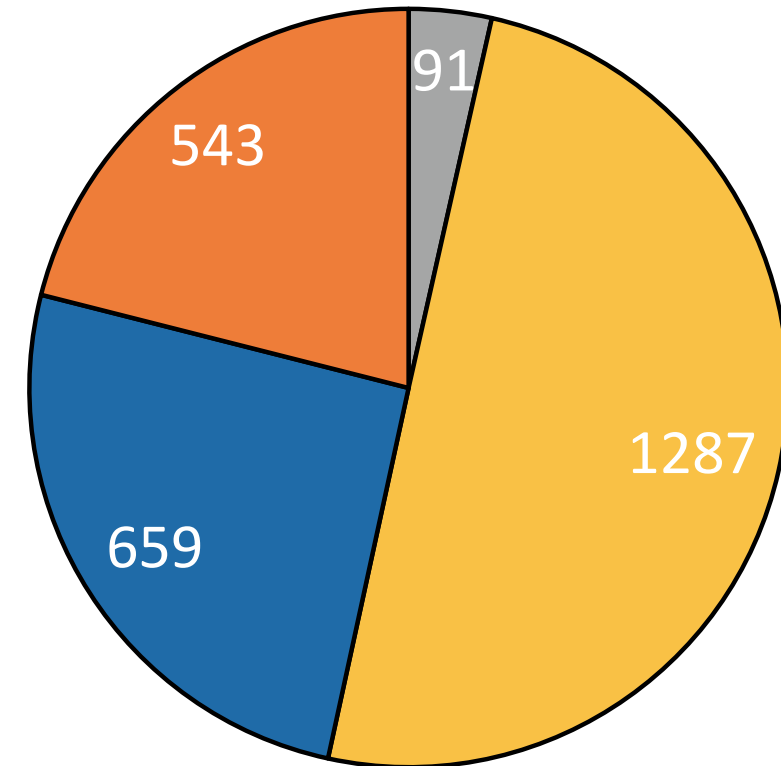
10 CEE countries

Division of allowances (in million EUAs)

Before Member State decisions



After Member State decisions



■ Modernisation Fund ■ Solidarity Provision ■ Article 10c Derogation ■ Auctioning

Article 10c Derogation vs. Modernisation Fund

	Article 10c Derogation	Modernisation Fund
Investment areas	Installations generating electricity covered by ETS	<ul style="list-style-type: none"> • Priority areas • Non-priority areas
% of costs covered	Up to 70%	<ul style="list-style-type: none"> • Priority investments: up to 100% • Non-priority investments: up to 70%
Limitations	<ul style="list-style-type: none"> • Ex-post financing only • Phase-out obligation if generation capacity is added 	
Governance	<ul style="list-style-type: none"> • Member State • EC's approval of competitive bidding process 	<ul style="list-style-type: none"> • Member State • EIB's and investment committee's approval of individual investments or schemes
State aid clearance?	Yes	Yes

The Article 10c Derogation will be used only by Bulgaria, Hungary and Romania in Phase 4

Recent developments: Innovation Fund

First call for proposals:

- Only for large-scale projects
- launched on 3 July 2020 – deadline is 29 October
- €1 billion for projects, €8 million for project development assistance

Evaluation process: INEA and independent experts

First call for small scale projects: later this year

Recent developments: Modernisation Fund

Implementing act: adopted on 9 July 2020

- **Governance arrangements:** Member State, EIB, Investment Committee and European Commission
- **Templates** for Member States' investment proposals and reporting obligations
- **First Submission:** An overview of MSs planned investments (*non-binding*) for the following two years (**every year by November** - including 2020)

Assessment of investment proposals:

- **Biannual meetings by Investment Committee**, first meeting before 15 July 2021
- Proposals to be submitted 10 (non-priority) or 6 weeks (priority) before session in order to be assessed by EIB and Investment Committee.

Modernisation Fund status in Member States

	Information available about governance and selection process?	Final decision expected by
Bulgaria		Unclear
Croatia		First half 2021
Czech Republic		End of 2020
Estonia		End of 2020
Hungary		2020
Latvia		End of 2020
Lithuania		Unclear
Poland		Unclear
Romania		Second half of 2021
Slovakia		End of 2020

Looking ahead: Brexit and ETS revision

	Base Case (<i>in millions</i>)	Brexit (<i>in millions</i>)	Brexit + 2030 target increase (<i>in millions</i>)	Brexit + 2030 target increase, including rebase of the cap(<i>in millions</i>)
Auctioning	1286.7	1136	1025.1	966.7
Solidarity Provision	542.9	479.3	432.5	420.5
Article 10c	91	80.8	71.3	71.4
Modernisation Fund	659	581.7	524.3	510.1
Total	2579.5	2277.8	2055.6	1998.8
<i>% Change vs. base case</i>		<i>-11.7%</i>	<i>-20.3%</i>	<i>-22.5%</i>

Impact of Brexit and the upcoming revision on the amount of allowances:

- **Higher EUA prices** can potentially mitigate this, but net impact is uncertain
- Achieving higher targets will increase the **investment needs**: discussion to increase the amount of ETS allowances
- EUAs are increasingly becoming a scarce good, and different objectives have to be balanced (*i.e. Modernisation, Just Transition, EU own budget, MS budgets, etc*)