



EUREC

The Association of European
Renewable Energy Research Centres

Modernisation Fund
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310 M allowances

- ...which is 2% of the total auctioned allowances

x your best guess of carbon price

- ... 20 € / allowance (aka EUA aka tonne of carbon dioxide)

x your country's share

- ... Romania's is 11.98%

+ your country's top-up

- ... in total 350 M allowances from RO, HR, CZ, LT, SK
- Of those I don't know how many from RO

= (guess) 4 bn EUR

2% of the total number of allowances to be auctioned 2021-2030 is approximately 310 allowances
RO has the biggest share of the Modernisation Fund of any country.

	Priority investments	Non-priority investments
Scope	<ul style="list-style-type: none"> • Generation and use of renewable electricity • Energy efficiency improvements • Energy storage • Modernisation of energy networks • Just transition in carbon-dependent regions 	<ul style="list-style-type: none"> • Any other area not listed as priority area in the ETS Directive • Solid fossil fuels not eligible (except efficient district heating in BG and RO)
Maximum funding	<ul style="list-style-type: none"> • Up to 100% of relevant costs 	<ul style="list-style-type: none"> • Up to 70% of relevant costs • Remaining costs by private legal entities
Fund allocation	<ul style="list-style-type: none"> • At least 70% of the Fund 	<ul style="list-style-type: none"> • At most 30% of the Fund
Path to funding	<ul style="list-style-type: none"> • EIB confirmation • Disbursement decision 	<ul style="list-style-type: none"> • EIB assessment • Consensus or positive vote in investment committee • Disbursement decision

Slide from the EC: https://energypost.eu/wp-content/uploads/2019/07/28_June_PGE_event_MF.pdf#page=3

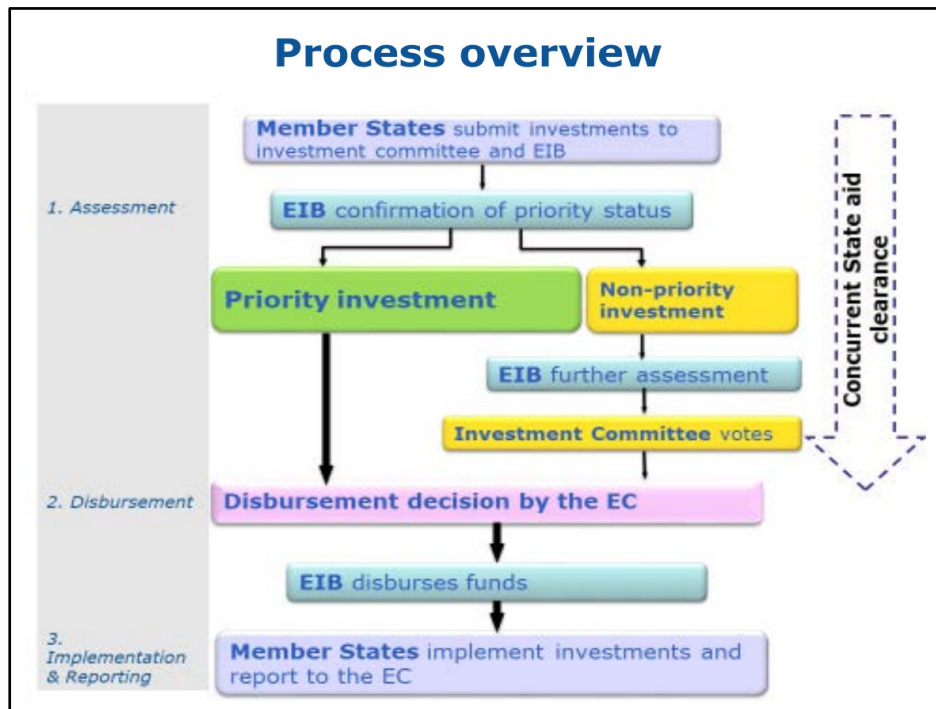
The ‘scope’ is taken from the primary legislation establishing the Modernisation Fund (<https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02003L0087-20200101&qid=1603193545648&from=EN#tocId28>). It says, in the English version, “[Priority investments are for] the generation and use of electricity from renewable sources, the improvement of energy efficiency, except energy efficiency relating to energy generation using solid fossil fuels, energy storage and the modernisation of energy networks, including district heating pipelines, grids for electricity transmission and the increase of interconnections between Member States, as well as to support a just transition in carbon-dependent regions in the beneficiary Member States, so as to support the redeployment, re-skilling and up-skilling of workers, education, job-seeking initiatives and start-ups, in dialogue with the social partners. Investments in energy efficiency in transport, buildings, agriculture and waste shall also be eligible.” All investments, including non-priority investments, must be for the “modernisation of [the] energy system.” Eligibility of gas infrastructure is uncertain.

“Relevant costs” is a vague term, used in the primary legislation and not further defined in secondary legislation (<https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32020R1001>). It is better defined in the context of the primary legislation’s other major funding programme, the Innovation Fund, but it seems unlikely that the definition there will be used for the Modernisation Fund. This is because Innovation Fund is concerned with comparing the costs and revenues of an innovative, clean technology with those of a non-innovative, dirtier existing technology. Modernisation Fund is not concerned with Innovation so its “relevant costs” will involve a comparison with some other counterfactual situation. If the Modernisation Fund project is “insulated homes” and the counterfactual is “non-insulated homes”, then the relevant costs could be as much as the entire cost

of installing insulation.

The “up-to-100%” is not explicit in the primary legislation, nor in the secondary legislation. If the definition of “relevance” is broad, then the reimbursement rate might be reduced to compensate.

More vagueness: “use of renewable energy” ? How would that be subsidised? A customer gets green electricity (with Guarantees of Origin) for the price of brown?



Slide from EC: https://energypost.eu/wp-content/uploads/2019/07/28_June_PGE_event_MF.pdf#page=4

The Investment Committee deals with contentious issues.

It seems not to be created yet. Its official name the “Investment Committee for the Modernisation Fund”, which is not googleable and nor in the Register of Expert Groups (<https://ec.europa.eu/transparency/regexpert/>).

Therefore it seems to be being constituted now.

RO can send one member and one observer.

(European Commission slide from June – seems to be 3 months delay)

Implementing act concerning the detailed rules on the operation of the Modernisation Fund to be adopted by the Commission



Concept paper being discussed with Member States

Modernisation Fund operation milestones

- **Investment committee constitution Q2 2020**
- **Investment committee 1st meeting Q3 2020**
- **Modernisation Fund operational as of 2021**

Slide from the EC with my annotation: https://energypost.eu/wp-content/uploads/2019/07/28_June_PGE_event_MF.pdf#page=6

Beneficiary countries can pre-qualify projects in a 'scheme'

"Scheme" = investment proposal that

- (a) comprises a consistent set of priorities coherent with the objectives of the Modernisation Fund, and because of the characteristics of the projects under the scheme, it can be qualified either as a priority or non-priority investment
- (b) has a duration of more than one year;
- (c) has a national or regional scope
- (d) aims to support more than one public or private person or entity responsible for initiating or initiating and implementing projects under the scheme.

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Taken from legal text (secondary legislation)

This is new since the primary legislation

Projects financed under "Schemes" face a lighter reporting requirement. Schemes are the only way to subsidise <200k € projects in non-priority areas

Modernisation Fund... modernised

- Secondary legislation refers to Just Transition Mechanism:

“When the investment aims at implementation of a territorial just transition plan, information about the expected contribution of the investment to that plan [must be reported to the EC].”

New language has appeared updating the Modernisation Fund updating it for era of the “European Green Deal” and the Just Transition Mechanism. It is surprising that the language around the link to JTM is so weak. Requiring Modernisation Fund spending to support or at least be aligned with a country’s JTP is what I would have expected the EC to push for. The MS must have resisted, perhaps using the argument that there’s no requirement in primary legislation for this, and only the formulation quoted in this slide was acceptable.

Unlike the European Structural and Investment Funds, the Recovery and Resilience Facility and Just Transition Fund, no particular plan is needed to as a pre-requisite for accessing Modernisation Fund money, just “Before a beneficiary Member State decides to finance an investment from its share in the Modernisation Fund, it shall present the investment project to the investment committee and to the EIB. Where the EIB confirms that an investment falls into the areas listed in paragraph 2, the Member State may proceed to finance the investment project from its share.”



Latest on InvestEU regulation: <https://data.consilium.europa.eu/doc/document/ST-10367-2020-INIT/en/pdf> (there are more recent versions but not made public on the Council website).

Builds on popularity of EFSI

- EFSI originally intended to last 2015-2018
- Extended and expanded 2017
- Closes for investments end 2020, when InvestEU takes over

New branding

- InvestEU = new single name for the home of all EC’s and EIB’s financial instruments

Previous incarnation of InvestEU: <https://eufundingoverview.be/funding/investeu-programm>

Putting everything under one banner was also one of Horizon Europe’s “simplifications”.

Heart of InvestEU

- 23.48 bn EUR budget guarantee, 75% of which to underwrite EIB loans
- ...and (novelty) 25% for non-EIB approved ‘Implementing partners’
- Compares with 26 bn EUR guarantee under EFSI

Areas supported: 4 ‘policy windows’


* (total amount roughly 2/3s
of total of these)

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Budget data is from <https://data.consilium.europa.eu/doc/document/ST-10367-2020-INIT/en/pdf> and <https://www.eib.org/en/efsi/what-is-efsi/index.htm>. Additions from MS allowed, the EIB and implementing partners of 9.5 bn EUR had been expected on the assumption that the EC’s guarantee was 38 bn.

“Policy windows” diagram has the correct 4 windows (from https://ec.europa.eu/commission/sites/beta-political/files/what_is_investeu_mff_032019.pdf), but with the wrong amounts (the amounts the EC and Parliament had hoped for in March 2019). The Council has not yet publicly stated how it will break down the overall guarantee per policy window (see the “XXX” in Annex II <https://data.consilium.europa.eu/doc/document/ST-10367-2020-INIT/en/pdf#page=62>). But what is known is that at least 60% of the guarantee for “Sustainable infrastructure” will be for “climate and environment”.

The Council has ruled out the Strategic Investment Facility window proposed by the Commission with a budget of 15 bn in May 2020 (EC’s proposal: https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/1_en_act_art1_v9.pdf#page=19). But it has beefed support for Just Transition compared to the EC’s May 2020 proposal (EC proposal: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020PC0403>), inserting a reference to Just Transition into the legislation text.

Forms of support

- [Article 15 \(1\)](#): “loans, guarantees, counter-guarantees, capital market instruments, any other form of funding or credit enhancement, including subordinated debt, or equity or quasi-equity investments, provided directly or indirectly through financial intermediaries, funds, investment platforms or other vehicles to be channelled to final recipients;”

‘A tool for every investment request’

- Nuno Quental – SMARTSPEND ‘Access to Risk Finance’ event: [clip](#)
- InvestEU Advisory Hub
- “Portal” to be created = funded projects database
- Accessing Countries and Neighbourhood Policy Countries eligible under conditions

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A database for some of the EFSI-funded projects exists:
https://europa.eu/investeu/projects_en?page=27

Article 7 empowers the EC to pass Delegated Acts for each of the Windows. Nuno’s clip talks about there is an EIB funding solution for every kind of project that fits with a EU priority. He also says the successor to the EFSI-era “EDP Innovfin” window called “Green Transition Investment Facility” for innovative clean tech will likely be in the Sustainable Infrastructure, and (I guess) therefore might be mentioned that window’s Delegated Act.