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EU support for the energy sector in Estonia

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22 October 2018



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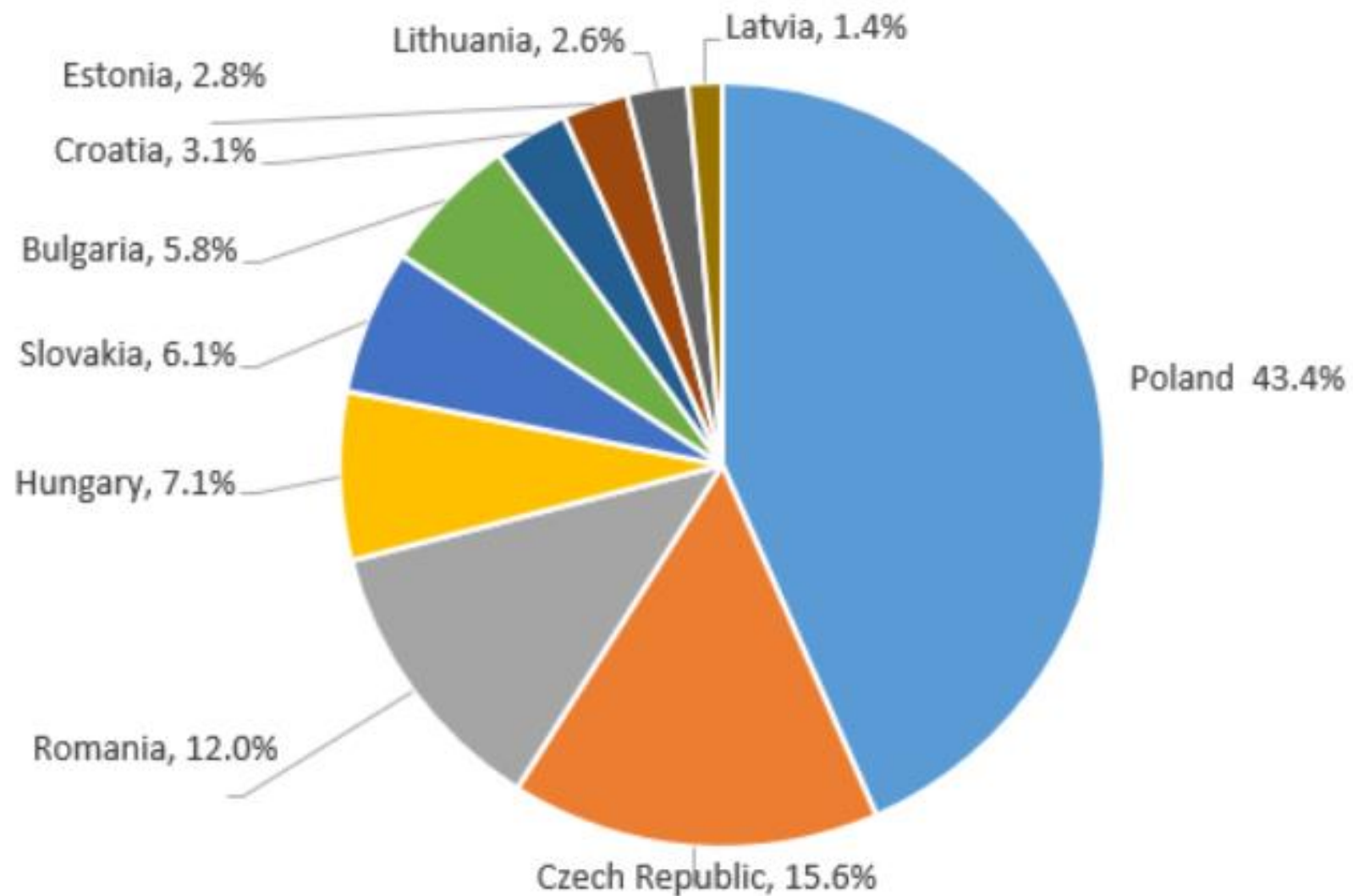
Part 1: Modernisation Fund & Article 10c – scale, scope, modalities, governance and timeline



Introduction

- **The revised EU ETS Directive has established several financial mechanisms as part of its 4th Phase (2021-2030) for the 10 lower income Member States:**
 - Modernisation Fund
 - Optional free allowances for modernisation of the energy sector (Article 10c)
 - Solidarity allowances
- **The overall objective is to support those Member States with the modernisation and decarbonisation of their energy systems**

Overview of the distribution of the Modernisation Fund across beneficiaries



If the carbon price was €25 per tonne of carbon then this would translate into the following values available:

- PL = € 3.3 billion
- CZ = € 1.2 billion
- RO = € 928 million
- **EE = € 232 million**
- LT = € 199 million
- LV = € 112 million

Priority investments must represent at least 70% of total Modernisation Fund (up to 100% of support)

Modernisation of energy systems

Renewables

Networks (including district heating pipelines)

Interconnectors

Energy storage

Improvements in energy efficiency

Energy generation
(except solid fossil fuels)

Transport, buildings,
agriculture & waste

Just transition in carbon-dependent regions

Re-deployment /
up-skilling of workers

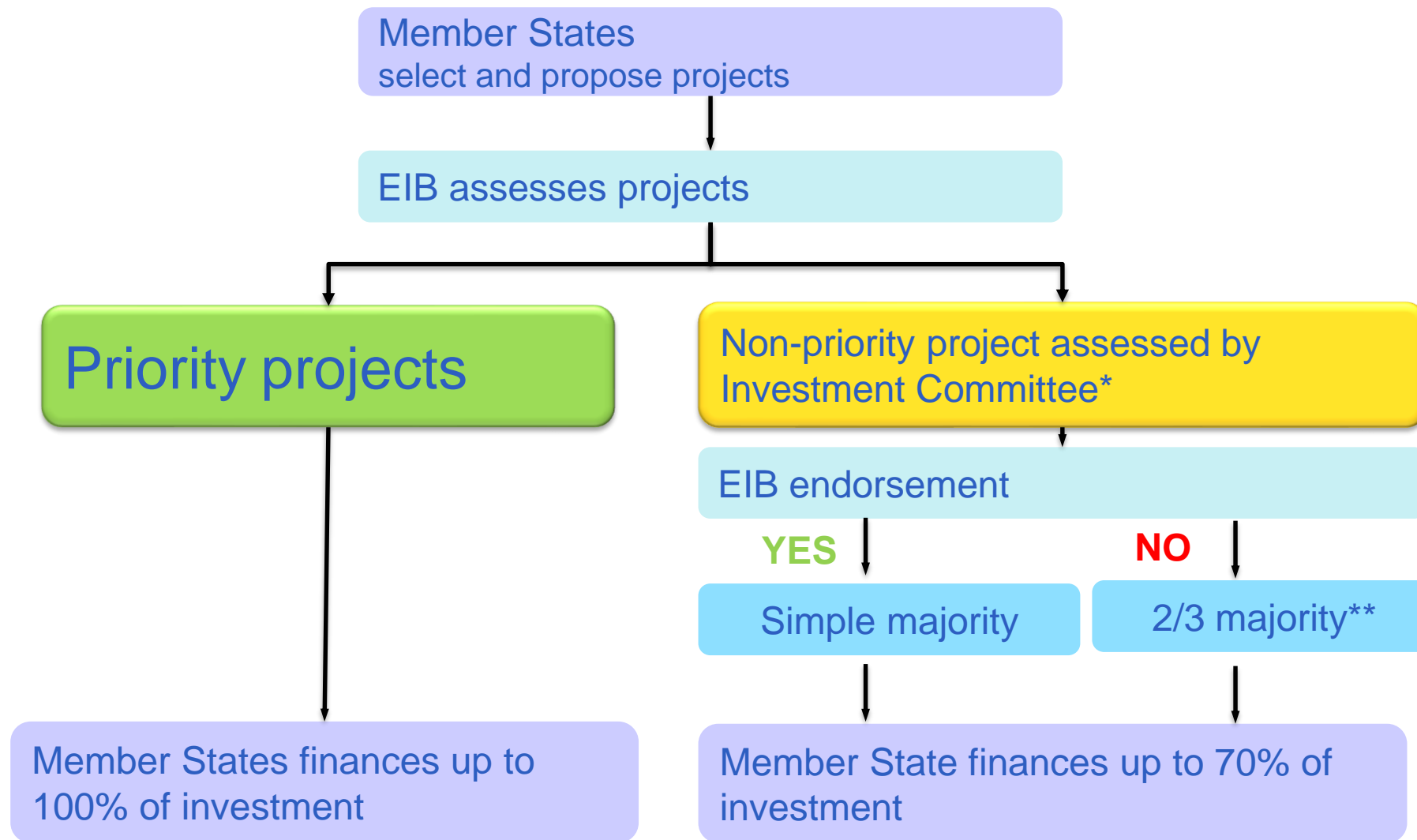
Education &
job-seeking

Support to start-ups

At most 30% of Modernisation Fund may be used for non-priority investments

- **Investments must be consistent with the**
 - EU 2030 climate and energy policy framework, and
 - Long-term objectives of Paris Agreement
- **No support can be given to energy generation facilities that use solid fossil fuels**

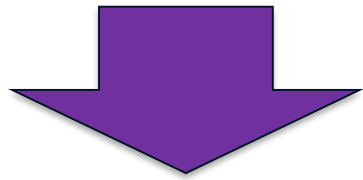
Streamlined governance for priority projects under the Modernisation Fund



*10 beneficiary MS, 3 donor MS, COM, EIB

**Vote in Invest Committee without concerned MS and EIB

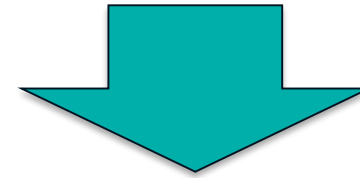
Estonia can finance projects from the Modernisation Fund in several ways



**Co-finance existing
subsidy schemes**

e.g. financial instruments
for energy efficiency

AND/OR



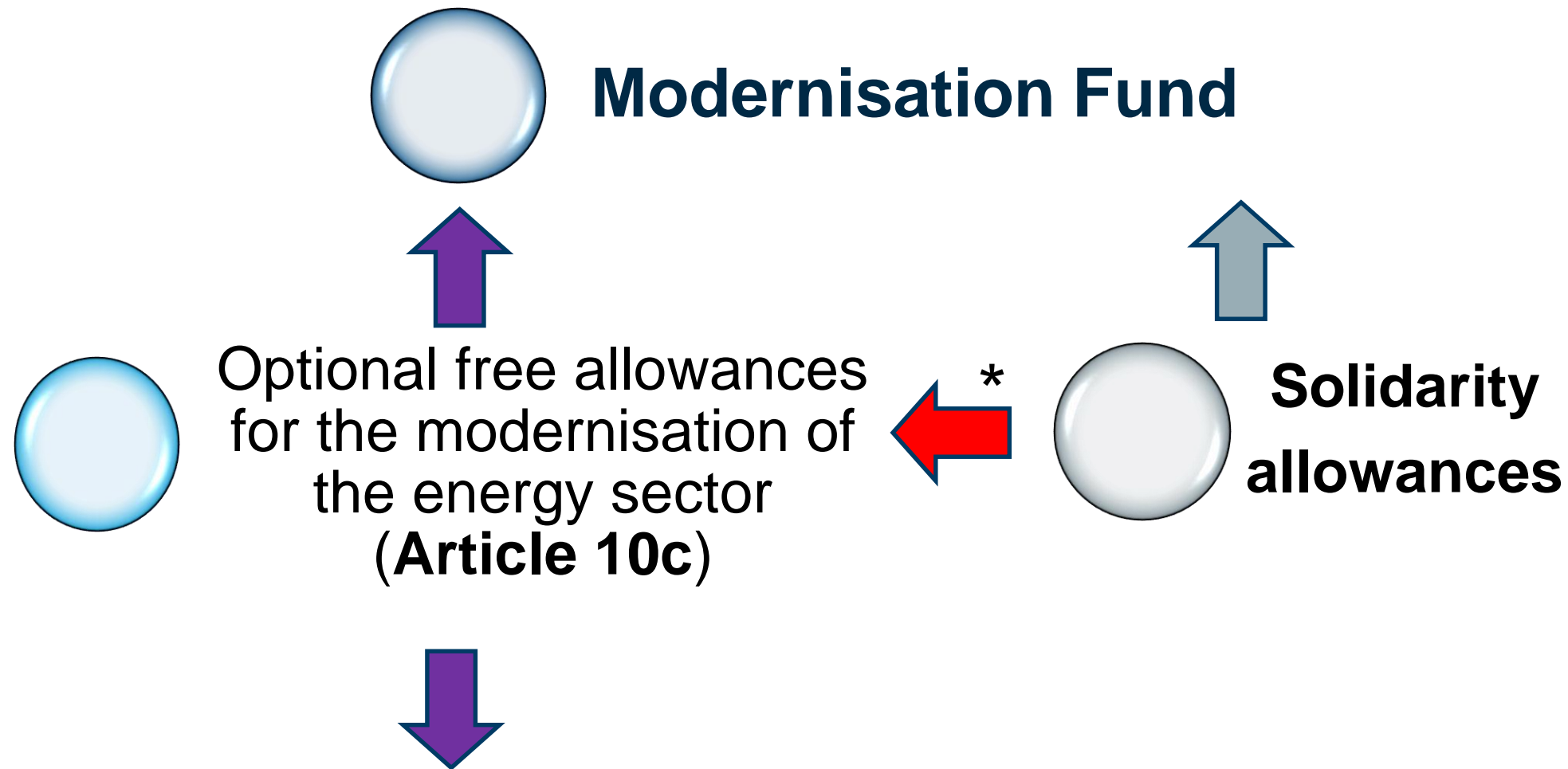
- **Support current
schemes**
- **Develop new
support schemes**



Modernisation Fund & Article 10c – potential scale

- Modernisation Fund is an EU solidarity element: all Member States contribute into it, while only the 10 beneficiary Member States can draw the revenues.
- Modernisation Fund represents at least 2% of the EU ETS cap, with revenue to be distributed among the 10 beneficiary Member States.
- Estonia will receive 2.8% of Mod Fund (at least 8.6 million allowances), for energy sector modernisation, energy efficiency and just transition.
- Total size of Article 10c can be no more than 40% of the allowances Estonia receives for auctioning, based on historical emissions.

Synergies are possible between Modernisation Fund, Article 10c & Solidarity Allowances



** Maximum transfer to free allocation can only be done if an equal amount of allowances from same source are used to increase the Modernisation Fund*

- **Competitive bidding for projects > €12.5 m** **NEW**
- **Listing of investment projects with value < €12.5 m**
- **Competitive bidding can apply to all project types**

Member States must plan rapidly to meet the Modernisation Fund & Article 10c timeline

Workshops in
beneficiary Member
States

Sept 2018 – Jan 2019

Adoption of Modernisation Fund Implementing
Regulation over the 2019 – 2020 period



**Member States that opt for
Article 10c must publish
competitive bidding
modalities in a national
framework by
30 June 2019**

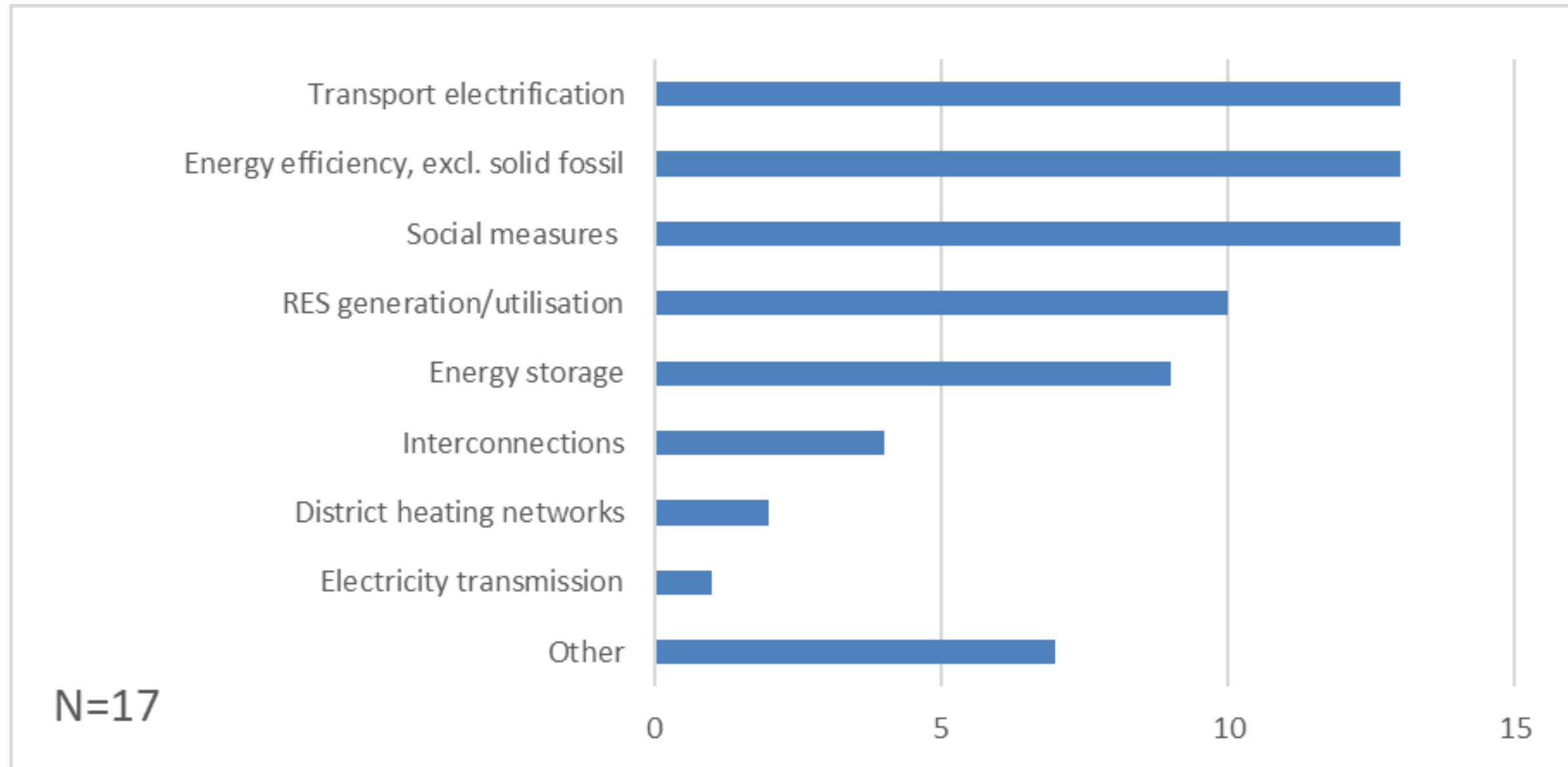
**Member States must
notify intent to transfer
further allowances to
the Modernisation
Fund by
30 September 2019**

Summary comparison of the Modernisation Fund and Article 10c

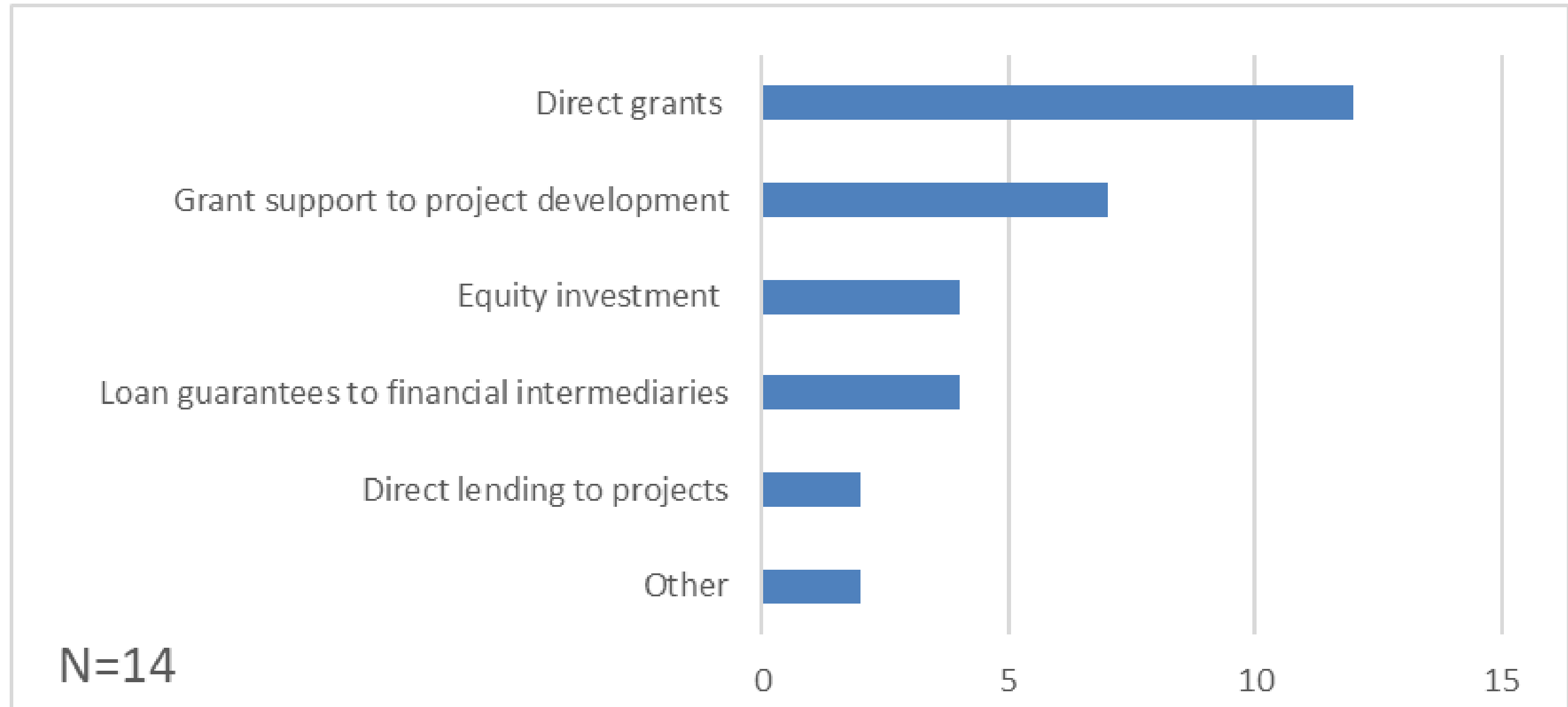
Modernisation Fund (MF)	Article 10c (optional free allocation)
The 2% of EU ETS cap for the MF is external to the national auctioning amount.	Any optional free allocation under Article 10c reduces the national auctioning amount.
The MF will definitely happen. A transfer of Article 10c allowances can streamline its use.	Operating both the MF and Article 10c mechanisms at the same time will have an increased administrative burden and increase costs.
Priority projects: funding rate up to 100% and covers at least 70% of total Fund amount Non-priority projects: funding rate up to 70% max	Maximum funding rate up to 70%. Remaining costs must be financed by private legal entities.
Member State can use existing financing mechanisms and have more options in selecting focus areas and principles for drawing up a list of possible projects	A national competitive bidding procedure needs to be set up for projects over EUR 12.5m
Lighter governance system and more flexibility regarding the programmes.	Allowances allocated to ETS installations producing electricity, reducing the flexibility for using the mechanism.

Part 2: Insights from stakeholder survey

Stakeholder views on priorities for investments in modernisation of Estonian sector

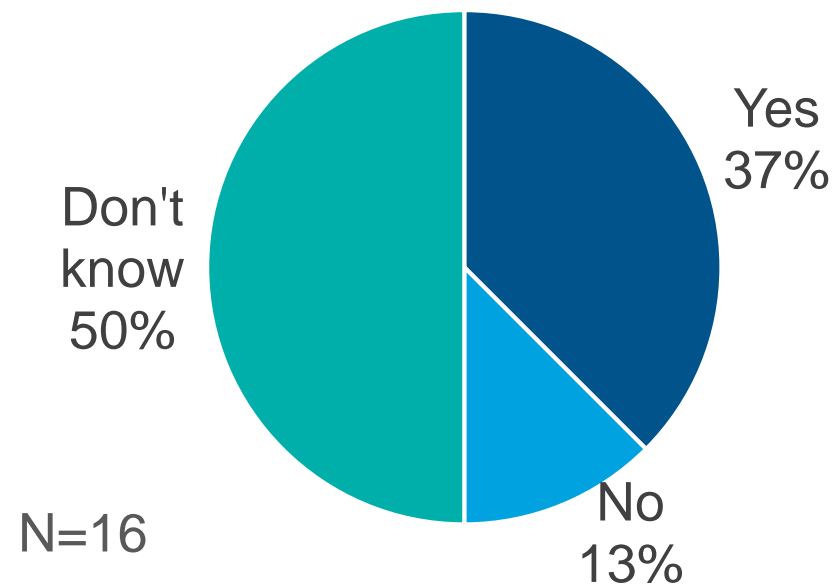


How could ETS low-carbon funds best enhance current public sector support in Estonia?

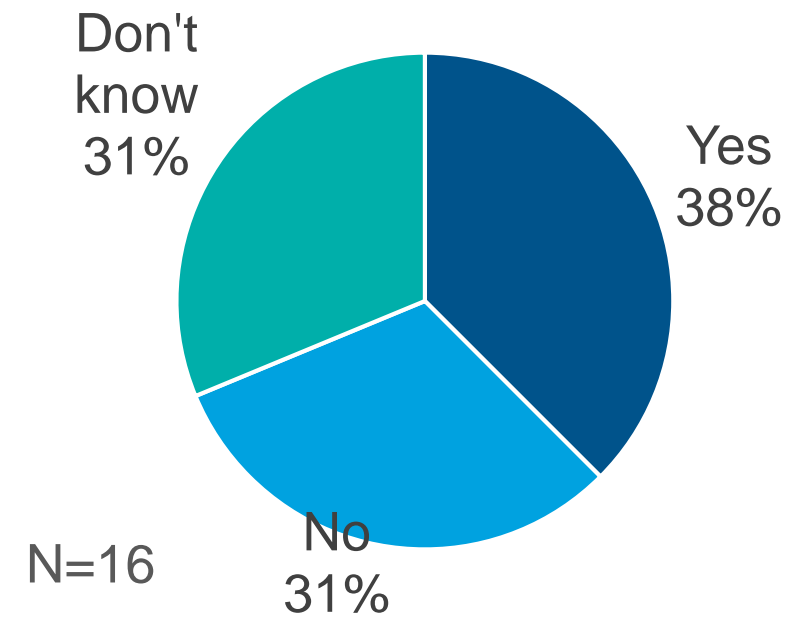


A clear area of debate is whether there is scope for pooling resources and integrating funding?

“Do you consider it to be beneficial if Estonia was to transfer all or part of the around 18 million allowances of 10c allowances to the MF?”



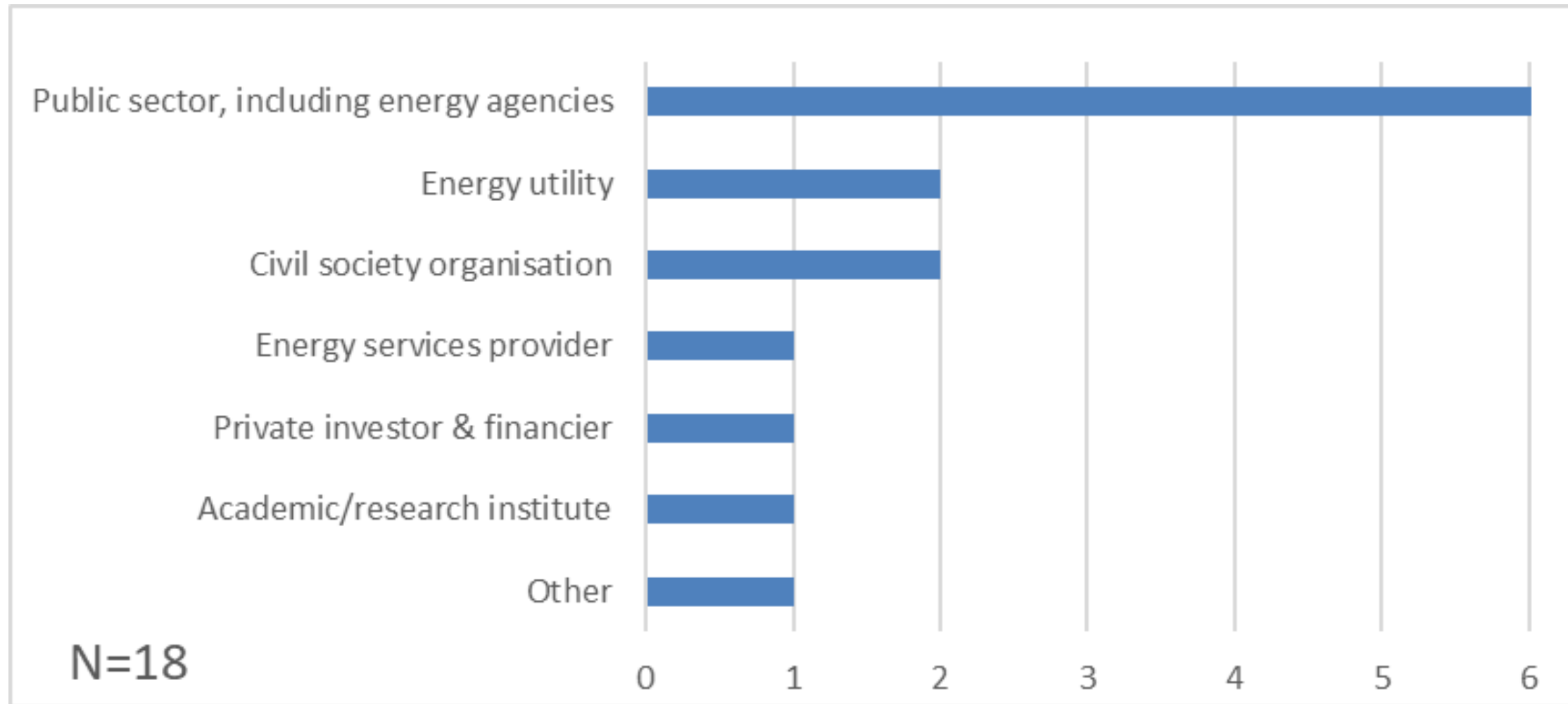
“Do you consider the integration of Modernisation Fund resources into another public support scheme(s) in Estonia to be a viable option?”





Thank you

Responses to the pre-workshop survey indicate diverse interest in the agenda



Is your organisation likely to apply for funding in the next 3-5 years?

