

Working Document – The way forward for the full deployment of NER 300 funds, for meeting with the CCC's WG3 meeting on 27 April 2017.

1. Context and summary of discussions at last CCC meeting including concerns raised by Member States.

NER 300 selected projects in two calls and awarded funding to 39 projects in 20 Member States (1 CCS and 38 renewable energy projects). €2.1 billion was awarded in total.

From the first call of NER 300, so far 4 projects awarded under the first NER 300 call have been officially withdrawn by Member States: BE DRMc SLim, FR BIOd UPM Stracel BTL, NL BIOd Woodspirit and SE BIOc Gobigas phase 2. This means that at least almost **€436 million from the first call will remain undisbursed and hence in the need of swift re-allocation to projects that are eligible for support under NER300 framework.**

The Commission services, the EIB Group representatives and members of the CCC discussed this matter on meetings in September 2016, November 2016 and February 2017. There was an agreement that the undisbursed NER 300 funds should be channelled via existing and relevant EU financial instruments, as the most effective option to ensure quick and effective disbursement.

The undisbursed funds from the **second NER 300 call** are planned to be re-allocated to the **Innovation Fund**, in line with the revised ETS proposal.

At the last CCC in February 2017, which built on the meetings held in September and November 2016, the Commission proposed that undisbursed NER 300 funds would be effectively redeployed through the following financial instruments:

- InnovFin EDP (Energy Demo Projects);
- CEF (Connecting Europe facility) Debt;
- EIB Equity Platform;
- EIF Equity Platform for SMEs and Mid-caps.

EFSI is not considered as a stand-alone option but as a potential source of co-financing in duly justified cases.

The Commission services also presented the draft of the related NER 300 Amending Decision (attached).

While generally supportive of channelling undisbursed NER 300 funds via these financial instruments, Member States expressed the following key concerns that should be given attention:

- **Governance** - involvement of the CCC in the decision making process to ensure integrity with NER 300 rules as set by the ETS Directive;
- **Grant component** - which should be integrated in the solution;

- **Geographical balance** - which should be safeguarded.

Member States were asked for further feedback and written comments on the NER 300 Amending Decision Draft by the end of February 2017.

The Commission services and the European Investment Bank (EIB) Group were asked to address Member States' concerns, so as to ensure the coherence of the solution with the ETS Directive Article 10a(8) requirements.

Consequently, this document explains how **the concerns raised by Member States would be addressed** under the approach proposed by the Commission.

For the sake of clarity (and also reminding why channelling of undisbursed NER 300 funds via Financial Instruments has been pursued as the best option), InnovFin EDP, CEF Debt and potential equity platforms managed by the EIF and EIB are considered as viable financial instruments for the reallocation of undisbursed NER 300 funds for the following reasons:

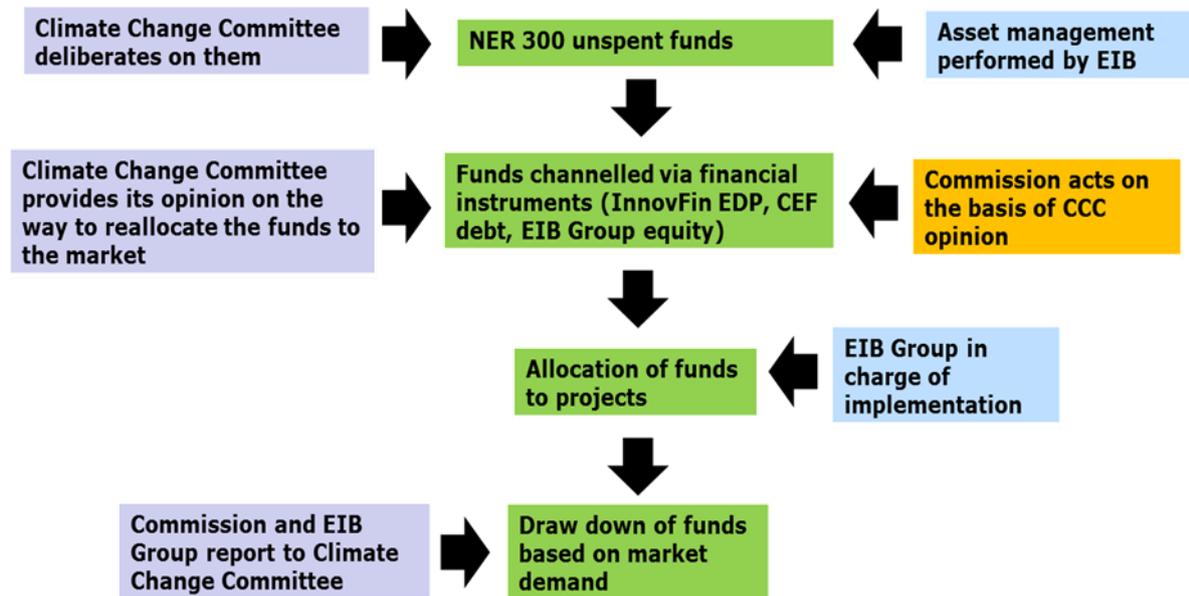
- They match key NER 300 framework as laid down in the ETS Directive (i.e. focus on innovative Renewable energy technologies and CCS, projects selected on the basis of objective and transparent criteria, etc.)
- They can make undisbursed NER 300 funds available to innovative EU companies and projects faster and more effectively compared to other options;
- They are more flexible in terms of tailoring the financial support to the project's needs for more versatile risk coverage;
- They can increase the leverage of public finance;
- They can support existing NER 300 projects through loans, risk guarantees or equity-type funding complementing the already existing grant funding;
- They have solid eligibility criteria, in relation to the type of projects and the possible use of funds;
- The market demand, added value and CO₂ reduction potential are key determinants for the feasibility of the initiative and the potential volume of funds that can be deployed.

Annex 1 of this document visualises the proposed way forward by showing in which Member States NER 300, InnovFin EDP and CEF projects have already been awarded.

The NER -300 related elements of the draft Delegation agreement between the Commission services and the EIB on InnovFin EDP and CEF Debt will be presented at the meeting on 27 April (work in progress).

2. Concern No. 1: Governance

The following section describes the governance approach for each financial instrument through which disbursement of undisbursed NER 300 funds will be possible. The general approach is the same for all of them and can be summarised by the following diagram:



2.1) InnovFin EDP

InnovFin EDP is designed to support **first-of-a-kind renewable energy demonstration projects**, via 95% first-loss risk coverage of EIB financing for selected projects. The objective of this financial instrument is to bridge the 'valley of death' from demonstration to commercialisation and to help with further pre-commercial rollout of low-carbon energy technologies to the market. Deployment of the current allocation of €150 million under the Horizon 2020¹ has started and initial market analysis suggests greater market demand².

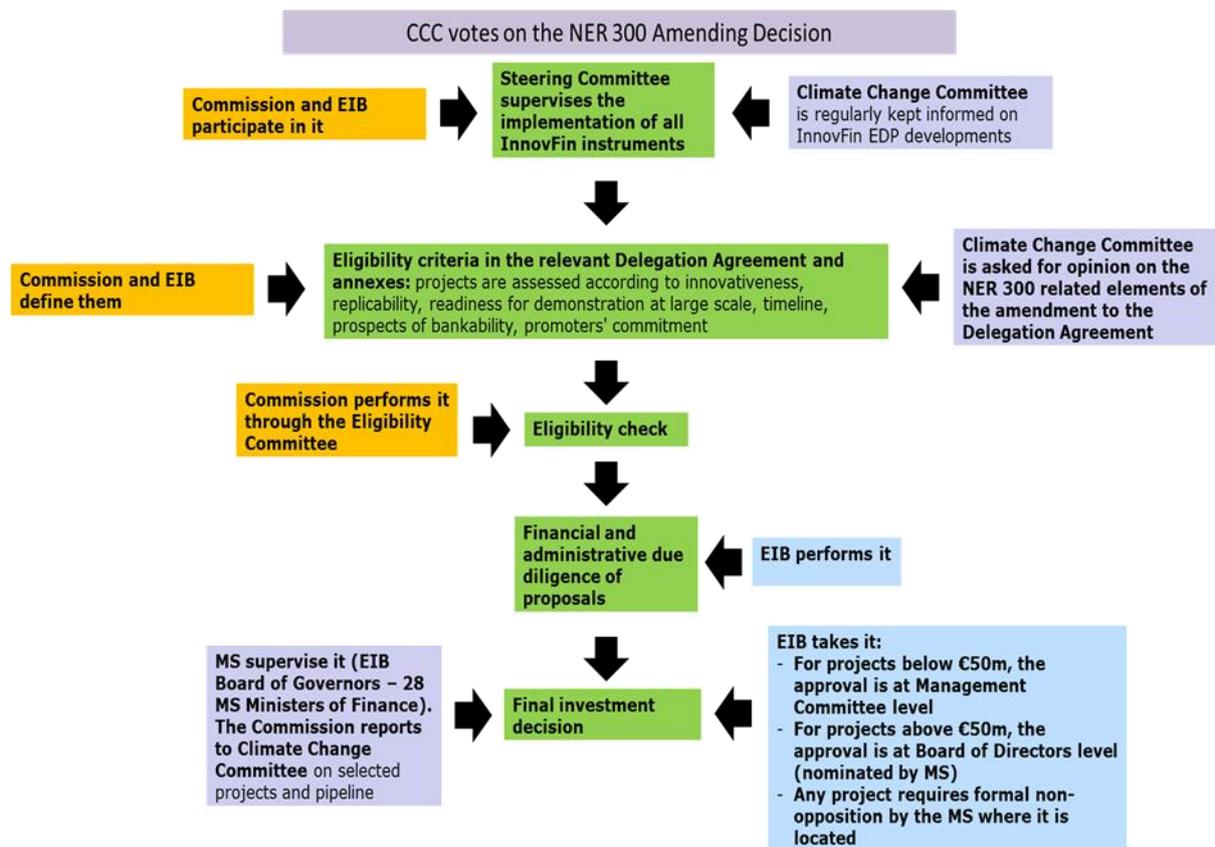
InnovFin guarantees and loans are backed by funds set aside under the Horizon 2020 programme and forthcoming undisbursed NER 300 funds. Effectively, these funds cover the first loss risk of the underlying loans (should the projects fail to reach bankability, the funds are drawn to repay the guaranteed part of the loan).

A NER 300 contribution to the InnovFin EDP would allow additional debt³ or equity-type financing through InnovFin EDP for projects awarded under the NER 300 calls, but also new projects in the area of innovative renewable energy technologies and CCS. Innovfin EDP projects are evaluated on a first-come-first-serve basis. The involvement and role of the CCC in the governance of the allocation of undisbursed NER 300 funds via InnovFin EDP is described in the following diagram:

¹ Horizon 2020 is the biggest EU Research and Innovation programme ever, with nearly €80 billion of funding available over 7 years (2014 to 2020). The programme has an ambitious goal of 35% climate mainstreaming, which is being pursued through research on clean energy and low-carbon technologies.

² InnovFin EDP has so far received a total of 92 expressions of interest. Among these, a first project ("Wave Energy Device", in Portugal) was signed in July 2016 for a €10 million loan, and a second project on offshore wind (also in Portugal) was approved by the EIB in December 2016 for a €25 million loan. Seven projects have passed the eligibility check for a total of around €135 million. Thirty additional projects are on a waiting list, 20 are on hold, and 33 have been withdrawn or rejected.

³ It can include convertible debt and other equity-type instruments such as in the case of Wave Energy Device project. More in general, a debt instrument is an obligation enabling the issuing party to raise funds by promising to repay the lender in accordance to the contract signed. Loans, bonds, mortgages and leases are all examples of debt instruments. As such, they can also provide a way for market participants to easily transfer the ownership of debt obligations from one party to another, giving them increased liquidity.



The CCC would be involved in the implementation of InnovFin EDP in the following ways:

- First, the **CCC would be asked to provide its opinion on the NER 300 – related elements of the InnovFin EDP Delegation Agreement** (i.e. the document detailing the functioning of the financial instrument) concerning the projects' eligibility criteria. This will ensure their compliance with the ETS framework and will allow both innovative RES and CCS projects to bid for support. **The NER 300 related elements of the InnovFin Delegation Agreement will be presented at the CCC meeting on 27 April (work in progress);**
- Secondly, the **CCC would be kept informed on any related InnovFin EDP development funded via undisbursed NER 300 Funds.** This will include **regular reports on selected projects and existing pipeline.** The Commission will be in charge to do so at regular CCC meetings, twice a year;
- Finally, **Member States supervise the EIB InnovFin EDP investment decisions** through their representatives **in the EIB Board of Directors.**

Member States would be thus involved both in the definition of relevant elements of InnovFin EDP eligibility criteria in respect of the NER 300 funds and in the relevant EIB investment decisions as per the EIB governance rules applicable to InnovFin operations, hence ensuring control over the use of undisbursed NER 300 funds. In this respect, it is also important to mention that an amendment to the InnovFin Delegation Agreement and the InnovFin Advisory Framework Partnership Agreement and specific grant agreement is planned for June 2017. This timeline will ensure inclusion of NER 300 related fundamentals such as:

- The extension of the scope of eligible projects to include CCS and alternative renewable energy based transport (such as RE hydrogen);
- The modification of requirements (such as available time to reach bankability) to cater for NER 300 projects risk profile;
- A wider interpretation of "first-of-a-kind" projects, to allow for second or third demonstration of a technology, innovative combinations and application of RES technologies;
- The highest risk coverage of the European Commission financial instruments to cover equity –type risk
- The integration with non-refundable project development assistance provided to project promoters.

Funding for projects would be available immediately after the amendment to the NER 300 Decision and the InnovFin EDP Delegation Agreement (scheduled for June 2017). Available resources would be deployed on a first-come, first-served basis. Project applicants are required to submit their projects directly to the EIB.

As regards the scope of projects supported via channelling of the undisbursed NER 300 funds via InnovFin EDP, it would focus in particular on **innovative renewable energy projects (including related smart grids and storage), renewable fuels and CCS.**

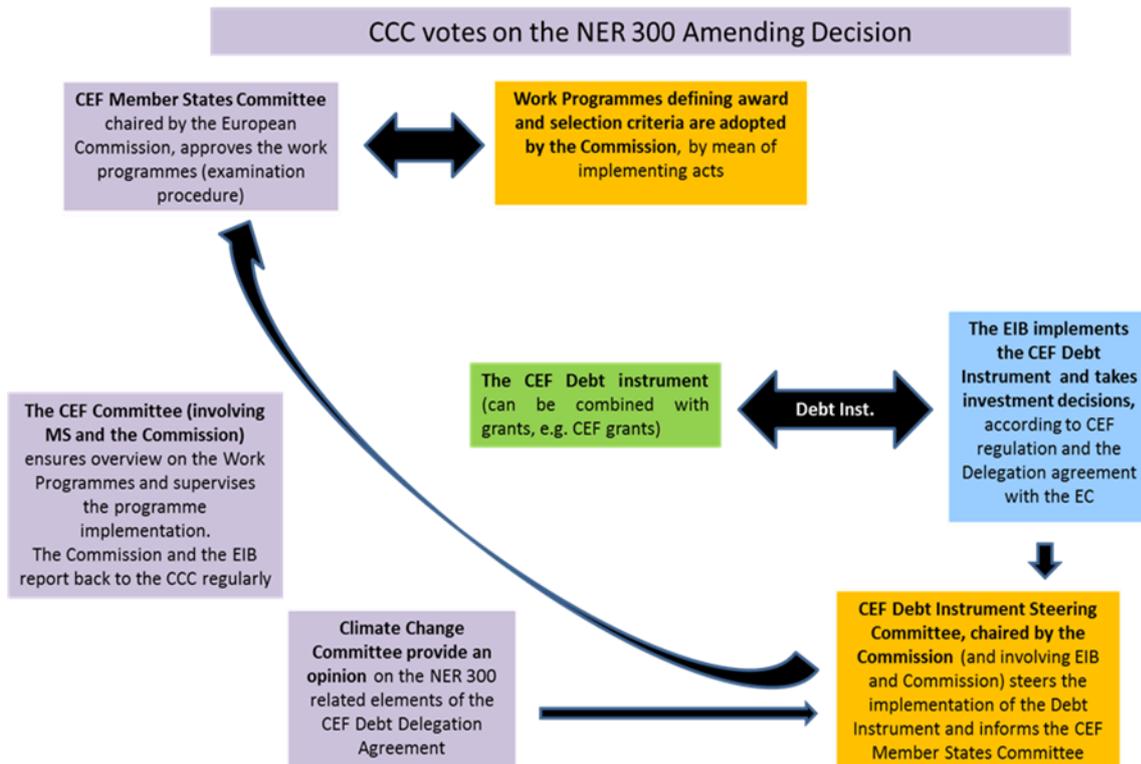
[2.2\) Connecting Europe Facility \(CEF Debt Instrument\)](#)

In December 2016, the **Cleaner Transport Facility (CTF)** under the CEF Regulation⁴ was jointly set up by the Commission and the EIB. The Facility aims also at supporting the **demonstration and roll out of innovative renewable energy technologies in the transport sector**, which is a key priority for low-carbon innovation. The facility is not a new financial instrument but an umbrella initiative that links various financing sources such as CEF, EFSI, potentially Horizon 2020 and EIB loans to source finance for clean transport projects.

The CTF financial instrument that would channel the NER 300 funds contribution to projects would be **CEF Debt**, which **can provide loans and guarantees** for renewable energy transport projects and e-mobility infrastructure, on a first-come-first-serve basis.

The involvement and role of the CCC in the governance of the allocation of undisbursed NER 300 funds via CEF Debt is described in the following diagram:

⁴ EU/1316/2013



Similarly to the case of InnovFin EDP, the CCC could be involved in the following ways:

- Firstly, the **CCC would be asked to provide an opinion on the elements of the CEF Debt Delegation Agreement** concerning the projects' eligibility criteria related to NER 300 funding, so as to ensure their compliance with the NER 300 framework. The outline of NER 300 related elements of the CEF Debt Delegation Agreement will be presented at the CCC meeting and discussed with Member States when ready;
- Secondly, the **CCC would be kept informed on any CEF Debt development regarding NER 300 funds contribution**. The Commission will do so at CCC meetings;
- Furthermore, as it is already the case, **Member States would be required to approve the CEF work programmes** and to supervise the implementation of the instrument, through their involvement in the CEF Committee;
- Finally, **Member States supervise the EIB CTF investment decisions** through their representatives in the EIB Board of Directors.

Member States are therefore involved both in the definition of CEF Debt eligibility criteria, in the approval of relevant work programmes and in the supervision of EIB investment decisions, hence ensuring a considerable level of control.

Funding for projects would be available after the amendment to the NER 300 Decision and the CEF Debt Delegation Agreement. Available resources would be deployed on a first-come, first-served basis. Under this option funds could be available to projects towards the end of 2017.

As regards the scope of projects supported via channelling of the undisbursed NER 300 funds via CEF Debt, the latter would focus in particular on **renewable energy-related e-mobility and innovative charging infrastructure in transport**.

CEF Debt support (loans) can be combined with CEF grants at the level of project promoters. CEF grant calls are closing on 14 July and 30 November 2017.

2.3) Equity provision

NER 300 lessons learned suggest that there is a market **demand for risk financing both in the form of debt and equity**. While the debt financing instruments InnovFin EDP and CEF Debt can redeploy NER 300 funds in a relatively short period of time, **equity instruments would take more time** to construct and roll-out⁵. However, they may be a viable and interesting option to provide additional form of financing to the market. **It is therefore recommended to give priority to InnovFin EDP and CEF Debt, while also considering the equity option.**

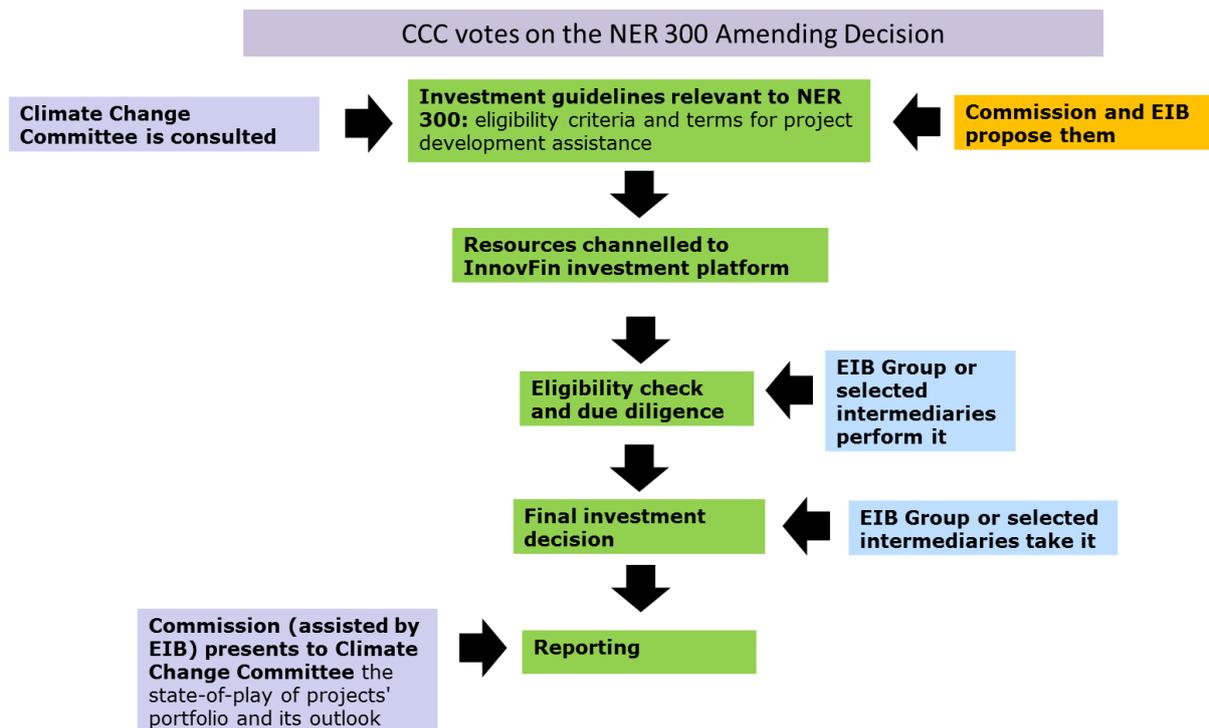
Two equity options were taken into consideration by the Commission and the EIB Group:

- An **equity platform for innovative renewable energy and CCS to be potentially created by the European Investment Bank** [work in progress, still to be confirmed];
- An **equity platform for SMEs and Mid-caps** to be established **via the European Investment Fund (EIF)**. – [still to be confirmed, based on the demand/eligibility check].

a) The **first equity option** could possibly entail the creation of a **third-party-managed thematic NER 300 equity platform** within the InnovFin (yet to be established), in which NER 300 and Horizon 2020 funds would provide equity-type investments to Midcaps/Corporates and/or funds that support eligible projects. The participation of other investors, including possibly the EIB (under EFSI) would take place at the Investee Company / investee fund level. The platform's investment objective would be tailored to the NER 300 scope.

The possible governance of such platform is outlined below:

⁵ Equity financing in essence means raising capital through the sale of shares in an enterprise. Equity financing varies in form and scope. While the term is generally associated with financings by public companies listed on an exchange, it includes financings by private companies as well as the activities of angel investors and venture capitalists. Equity financing can involve not only the sale of common equity, but also of other equity or quasi-equity instruments such as preferred stock, convertible preferred stock and equity units that include common shares and warrants. Equity financing is distinct from debt financing, which refers to funds borrowed by a business with a pre-defined repayment schedule. However debt financing can be of equity-type as taking on a level of risk typically associated with equity..



The CCC would be consulted on the definition of the investment guidelines, in particular the parts related to eligibility criteria, to cater for NER 300 framework requirements. Furthermore, the CCC would receive regular feedback on selected projects and the pipeline during its meetings from the Commission (assisted by the EIB).

The platform could be established during the course of 2018, as it would be a new structure requiring the necessary lead time. It is therefore an option that will require a longer time to become fully operational.

b) The **second equity option** (i.e. operated via **European Investment Fund**), still to be confirmed, would consist in creating an equity platform for SMEs and Mid-caps **combining various resources** (Horizon 2020, NER 300, EFSI, EIF). Such platform would be managed by the EIF and its resources would reach final beneficiaries on the market through financial intermediaries (such as private equity funds or clean-tech funds). However, **due to the nature of the venture capital investing**, the focus of the financial intermediaries is on investing in companies rather than projects, which may not fit with the NER 300 legal base. In addition due to narrow eligibility scope of current NER 300 legal base the only sector so far identified, where there could be a match with the clean tech venture investing, would be in the area of digital renewable energy. Thus, **this option should not be considered as a mainstream avenue for deployment of undisbursed NER 300 funds**. Still, an opportunistic approach could be explored on a case by case basis, with the operating model yet to be defined.

3. Concern No.2: Grant component

The possibility of blending grants and loans was suggested by several Member States as a key strategy to de-risk innovative low-carbon energy projects and help them to reach financial close and bankability. Member States also stressed the importance of integrating a grant component into the respective financial instrument eligible for channelling undisbursed NER 300 funds.

It needs to be explained and stressed, that all proposed **Financial Instruments are enabled by the EU budget** in the form of an **EU Guarantee or another risk-sharing arrangement with the EIB**, which makes the financing of innovative and therefore higher-risk projects possible.. For example, under InnovFin EDP, the EU budget guarantee covers up to 95% of the underlying projects risks.

Secondly, each financial instrument already can include the **project development assistance (PDA) support, i.e. non-refundable financing that can cover the development costs incurred by projects until their financial close**. Such support would be co-funded with undisbursed NER 300 resources, for projects falling under the NER 300 scope. In greater detail, the PDA would (among other services) cover the costs related to the preparation of:

- Technical preparatory studies;
- Business plans;
- Front-end engineering studies;
- Training courses for relevant personnel;
- Development of procurement documents until projects' launch.

Additionally, **blending different types of support is already possible**. This is demonstrated by the 10 NER 300 projects that applied for InnovFin EDP support: the two instruments can indeed be used together to meet all the projects' financial needs.

Further, in the **renewable energy related transport area, project promoters would be able to benefit from both** (CEF originated) **grants and** (NER 300 originated) **loans**. An open call for CEF-financed grants has already been launched on 8 February 2017, with **deadlines on 14 July and 30 November 2017** (first and second cut-off date).

Structural funds or national funding programmes could be also considered by project sponsors as an extra source of grant support that can be combined with NER 300 funding, as it has already been the case for some innovative renewable energy projects.

Finally, the Commission Services are **recently exploring** the possibility to set up **a system of 'blending grants' financed via Horizon 2020 calls**, with InovFin EDP loans. This would complement InnovFinEDP financial instrument on a project case-by-case basis, when needed (in order to allow the achievement of project's financial close). The Commission plans to examine this option with Member states within the relevant Horizon 2020 committees, when more developed.

4. Concern No.3: Geographical balance

It is important to notice that financial instruments enable a better geographical balance than the one achieved by NER 300 for several reasons:

Firstly, as demonstrated in Annex 1, **financial instruments have already achieved a solid geographical spread**, especially if we consider both the projects that received support and the existing pipeline. This is all the more relevant if we consider the coverage attained by all financial instruments and the NER 300 programme jointly.

Secondly, **financial instruments are by definition open to projects coming from all Member States**. This is indeed one of their main features, as allocation of available resources takes place on a merit and first-come-first-serve basis.

Thirdly, projects submitted under financial instruments do not have to respect any capacity threshold. This will result in a more streamlined application process and will provide better access **to funding to smaller scale projects**, which were not entitled to NER 300 support before.

Finally, the CCC will regularly (twice a year) receive information on the NER 300-supported project pipeline evolution, and in collaboration with the Commission services and the EIB will help **steering the geographically balanced support**. To do so, CCC and NER 300 national contact points, together with the Commission services and the EIB will **mobilize their outreach activities, as appropriate**, which will include promotion of the financing opportunities in all Member States.

5. Conclusions and next steps

The **three key concerns raised by Member States were duly considered and integrated into the solution for channelling of the undisbursed NER 300 funds** from the NER 300 first call.

As regards the **governance** (i.e. role of the CCC in the future decision making under Financial Instruments):

- The CCC will be asked for an ex-ante opinion when setting the NER -300 related eligibility criteria;
- The Commission Services (assisted by the EIB Group) will regularly (twice a year) provide feedback to the CCC as regards the projects supported and outlook of the project pipeline;
- Member States have a control over the investment decisions made by the EIB via its Decision making bodies.

As regards the requirement to keep the **grant component** integrated into the financing provided under the Financial Instruments:

- Proposed **Financial Instruments are enabled by the EU financing** in the form of an **EU Guarantee or another risk-sharing arrangement**, which makes the financing of

innovative and therefore high-risk projects possible. This **EU support (guarantee) covers potential losses** related to projects' failure.

- Financial instruments would include the **project development assistance (PDA) support, i.e. non-refundable financing that can cover the development costs incurred by projects until their financial close.**
- **Blending is already possible** for existing NER 300 projects (where NER 300 grants can be combined with InnovFin EDP loan support) and for new projects under the CEF (where CEF Debt support via loans can be combined with the CEF grants calls in 2017);
- The Commission services are **investigating options for launching a specific Horizon 2020 grant support** that could complement the InnovFin EDP financing (under construction).

As regards the **geographical balance**, it is expected that the proposed solution to channel the undisbursed NER 300 Funds from the first NER 300 call via relevant Financial Instruments will ensure fair and balanced distribution of supported projects across the EU, due to the existing pipelines of projects, removal of capacity thresholds (allowing both big and smaller projects to bid for support) and market-based modus operandi of the relevant financial instruments. Further, active communication and outreach activities by the NER 300 contact points, EIB and Commission services will enable steering the balanced projects pipeline development.

The **CCC is invited to express its opinion on the proposed combination of financial instruments** to achieve an effective and complete redeployment of at least EUR 436 million of undisbursed NER 300 funds from the NER 300 first call.

Consequently, **the proposed amendment to the NER 300 Decision** will be put for CCC vote at its meeting on 27 April 2017.

Should the CCC vote positively, the Amending Decision would be under scrutiny by the European Parliament and the Council for three months and it is expected to be adopted in **September 2017**. This would pave the way to making sure that **undisbursed NER 300 funds could be made available to projects by the end of 2017**.

It should be stressed that to allow for related InnovFin Delegation agreement amendment in June 2017 and CEF Debt Delegation agreement amendment in the second half of 2017, it is essential that the CCC expresses its opinion on 27 April.

Annex 1: NER 300, InnovFin EDP and CEF projects per Member State

Instrument / Member State	NER 300	InnovFin EDP approved	InnovFin EDP pipeline	CEF approved	CEF pipeline
Austria	AT WINe Windpark Handalm				
Belgium					Electric buses and trams
Croatia	HR GEOc Geothermae				
Cyprus	CY CSPe HeliosPower CY CSPc EOS GREEN ENERGY CY DRMa Green+				
Denmark	DK BIOg MET				
Estonia	EE BIOa Fast pyrolysis EE BIOb TORR				
Germany	DE BIOh Verbiostraw DE WINa Nordsee One DE WINa Veja Mate		PV project PV project		
Greece	EL CSPc Minos EL CSPe Maximus				
Finland	FI BIOe Ajos BTL		Geothermal project		
France	FR WIND Vertimed FR GEOc GEOSTRAS FR OCNc NEMO		CSP project Ocean project Bioenergy project	Hybrid and hydrogen buses	
Hungary	HU GEOb South Hungarian Enhanced Geothermal System (EGS) Demonstration				
Ireland	IE OCNa WestWave				

Italy	IT BIOg BEST IT CSPc Mazara Solar IT DRMa Puglia Active Network				Hybrid buses
Latvia	LV BIOa CHP Biomass pyrolysis			Hydrogen fuel cell busses	
Poland	PL BIOg CEG Plant Goswinowice				Renewal of tramway rolling stock and purchase of buses
Portugal	PT WIND Windfloat PT OCNa SWELL PT PVa Santa Luzia Solar Farm	Windfloat WaveRoller			
Spain	ES BIOh W2B ES WIND BALEA ES WIND FloCan5			Renewal of Palma de Mallorca's bus fleet Las Palmas Bus Rapid Transit system Electric buses in San Sebastian Electric buses in Vitoria	
Sweden	SE WINf Windpark Blaiken SE BIOd Bio2G				
UK	UK OCNb Sound of Islay UK OCNb Stroma Tidal Turbine Array UK CCSoxy White Rose		Ocean project Ocean project Offshore wind project		