



Innovation Fund

**Draft Commission
Delegated Regulation**

**Expert Group meeting
4 December 2018**

Agenda

13h30 to 15h30

- Introduction
- Articles 1 to 13

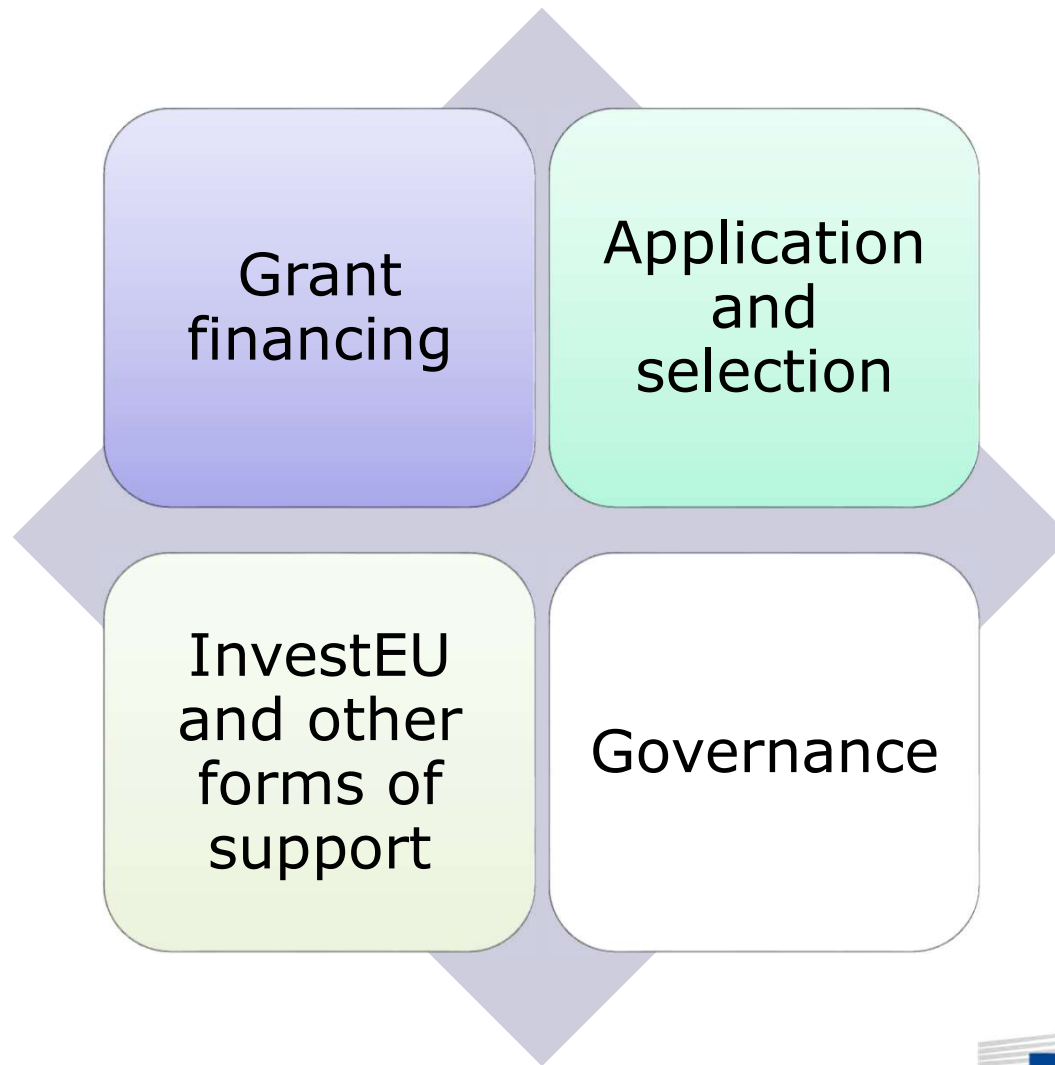
15h30 to 16h00

- Break and refreshments

16h00 to 18h00

- Articles 14 to 28
- Conclusions and next steps

Innovation Fund



Principles

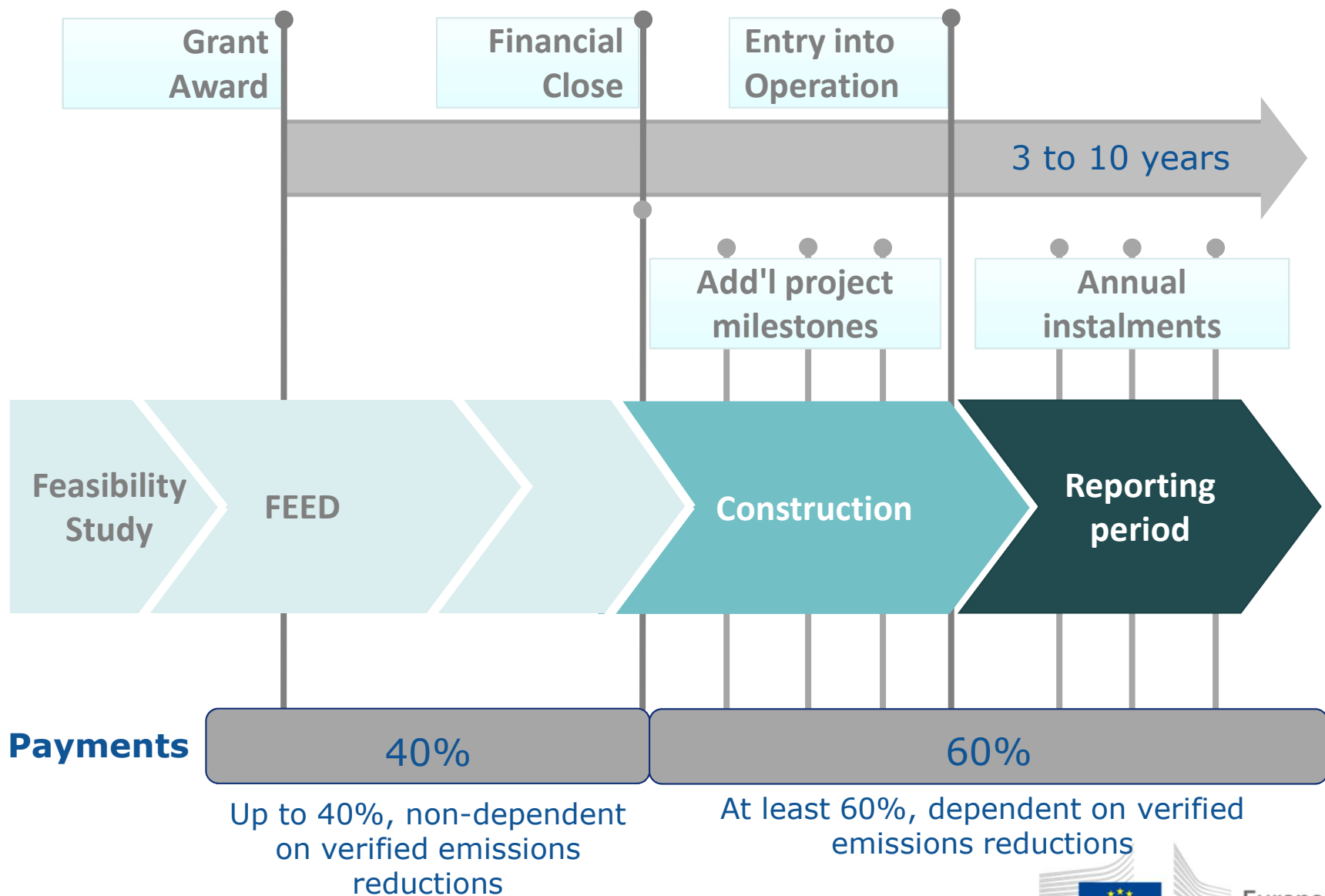
More flexibility

Better selection

Stronger synergies

Streamlined governance

Grant disbursement based on milestones



Relevant costs and funding rate

Relevant costs = additional capital and operational costs due to innovation

Simplification for small-scale projects (< € 5 million):
Relevant costs = total capital costs

Maximum funding rate of 60% for all types of projects

Recovery rules

Up to 40% of grant is not dependent on achievement of emissions avoidance

Remaining grant subject to recovery

- If less than 75% of planned emissions avoidance is achieved over reporting period
- *Force majeure* clause

Comprehensive selection criteria

GHG
emissions
avoidance

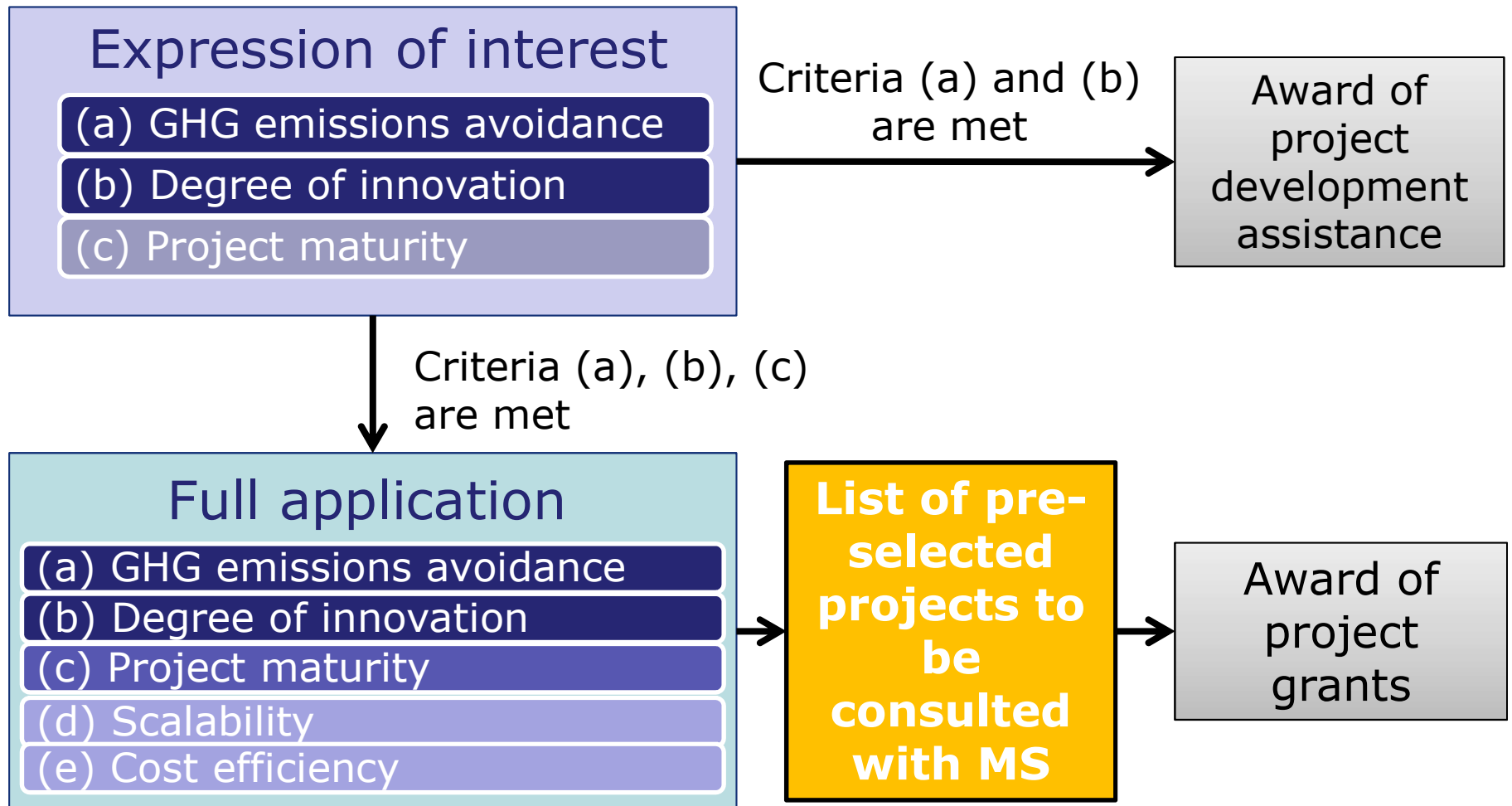
Degree of
innovation

Project
maturity

Scalability

Cost
efficiency

Two-stage selection process



Commission to launch calls for proposals with detailed information

OPTIONAL

€ amount for call

€ amount for project development assistance

Type of solicited projects or sectors

Type of documentation to be submitted

Methodology for evaluation and ranking

€ amount reserved for small-scale projects

Specific rules for small-scale projects

Additional criteria for geographical balance

Specific rules for cooperation with other EU programmes

First call expected before 31 Dec 2020



Other forms of support (than grants)

Invest EU

- Blending with Union investment support instrument
- Rules of InvestEU to apply

Other forms of support as foreseen in Financial Regulation

- e.g. prizes or financial instruments under Horizon Europe
- Rules to be determined

Streamlined governance

Implementing body (e.g. EIB, executive agency) **supports** Commission, among others on:

- organizing the call for proposals, including application procedure, project evaluation, due diligence, and project ranking
- advising the Commission on the projects to be awarded
- preparation and management of the contractual documentation concerning the awarded projects;
- checking if the conditions for the financing are met and disbursing the Innovation Fund revenues to the project proponents;
- monitoring of the project implementation;
- management of knowledge sharing.

Monetisation and revenues management by Commission with support by EIB

Consultation of Member States

List of the pre-selected projects prior to grant award

€ amount for project development assistance

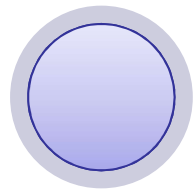
Use of other forms of support and € amount

General orientations for the Innovation Fund

Project implementation problems

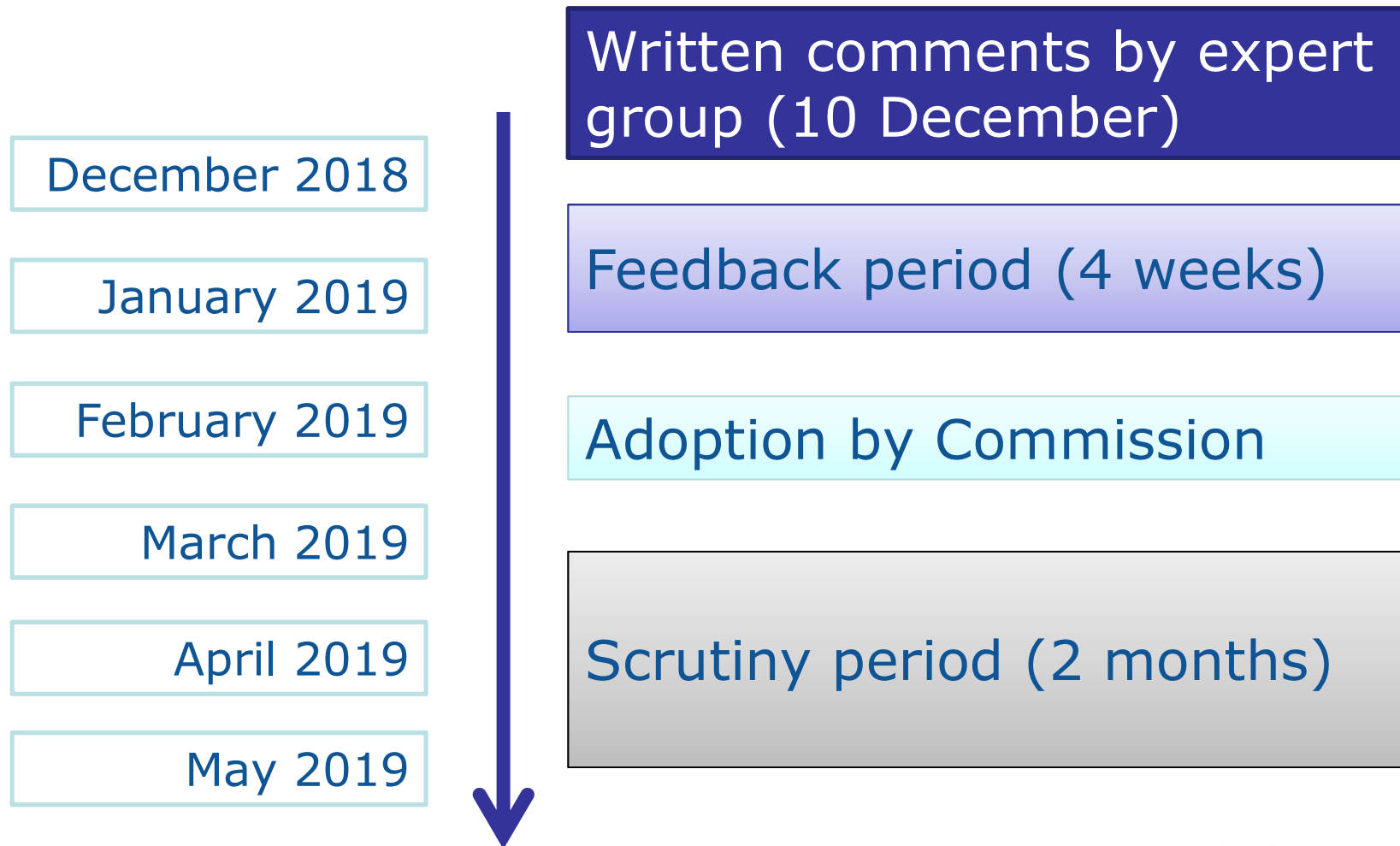
Other issues relating to project implementation

*Stakeholders to be consulted
on last three topics*

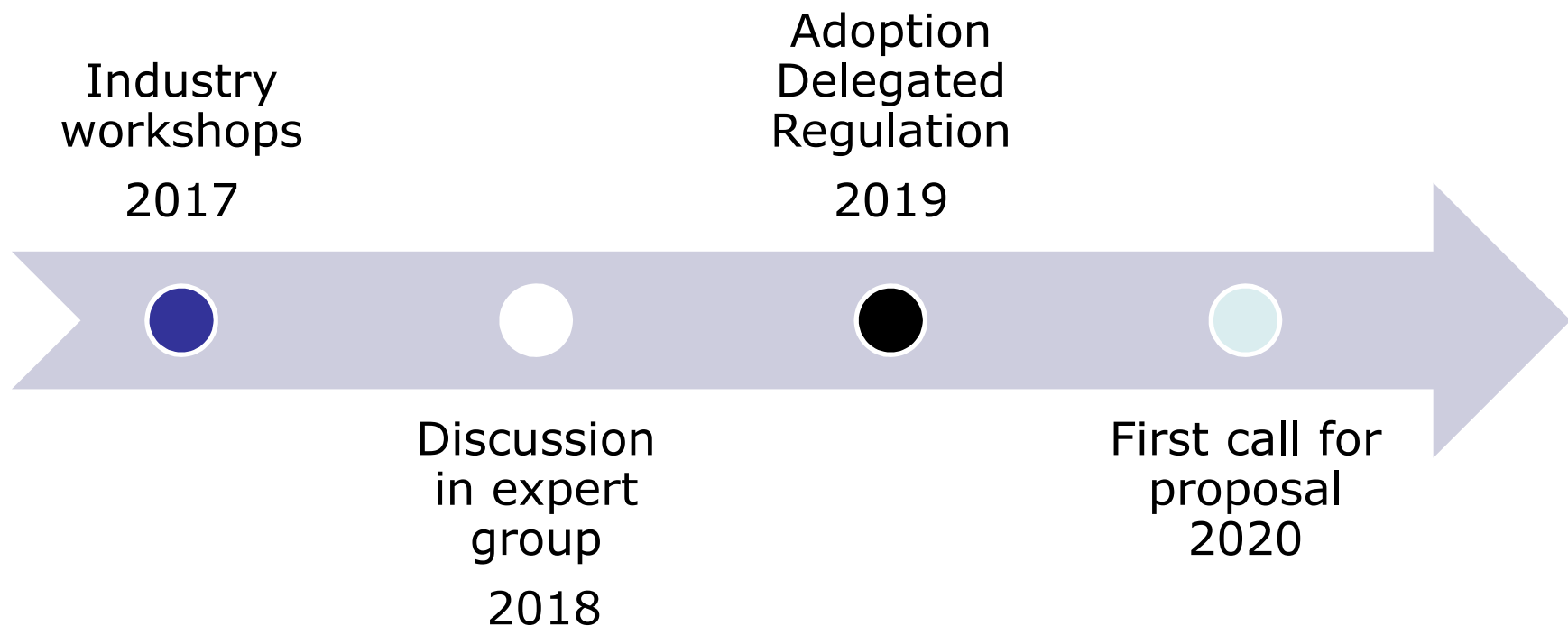


Background slides

Delegated Regulation - Adoption



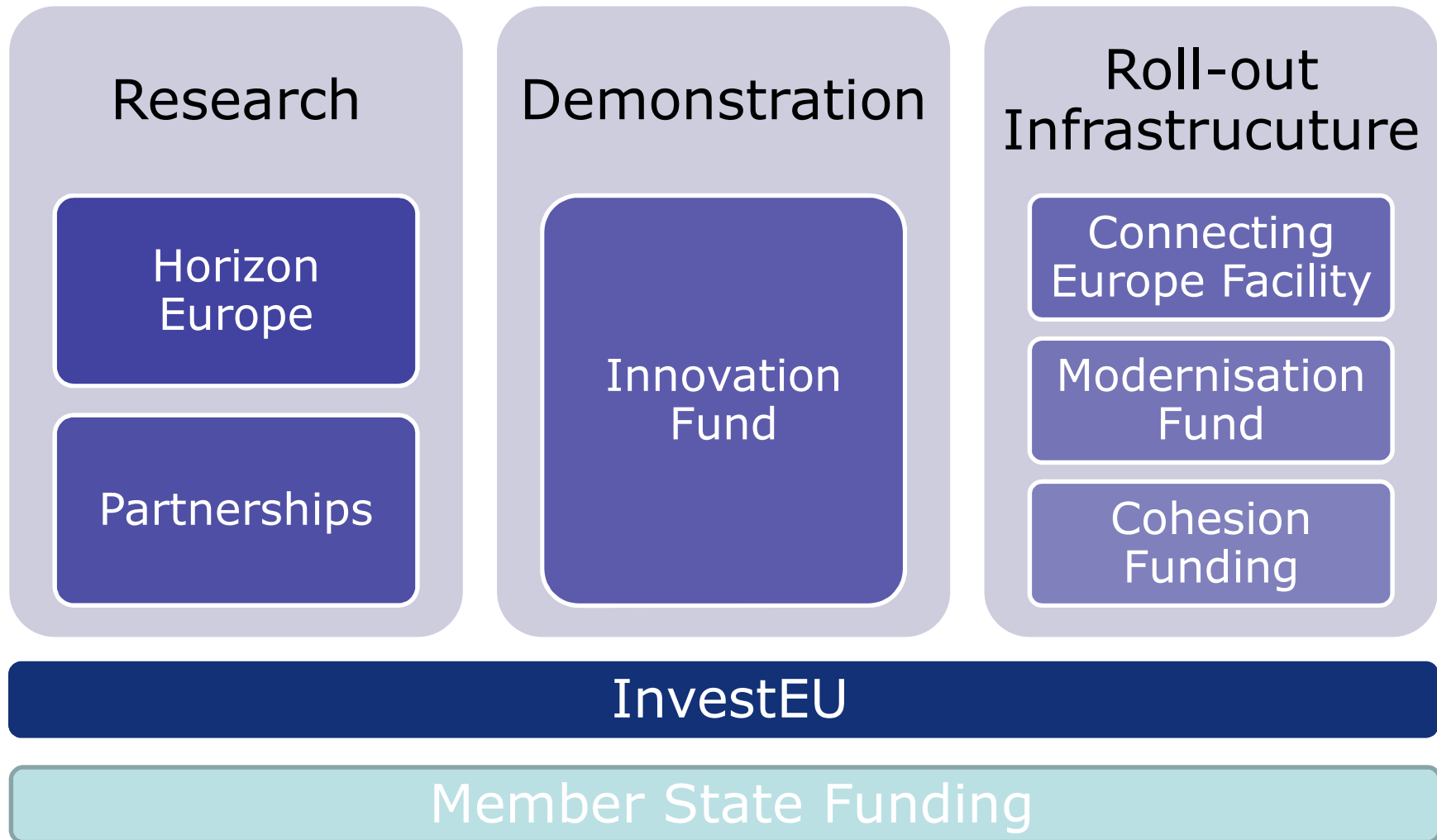
Timeline – Innovation Fund



Basics - EU ETS Directive 2003/87/EU, as amended by Directive (EU) 2018/410

	NER300	Innovation Fund	Impact
Size	300m allowances	≥ 450m allowances	Substantial increase in funding
Scope	Renewable energy and Carbon Capture and Storage (CCS)	Extended to energy-intensive industry	Greater technology coverage
Grant amount	Up to 50% of relevant costs	Up to 60% of relevant costs	Higher support
Disbursement of grants	Only upon verified avoidance of CO ₂ emissions	40 % of support need not be dependent on verified avoidance of CO ₂ emissions	Upfront risk-sharing possible

Synergies – Innovation Fund



ECA Report*: Overall conclusion:

While acknowledging the challenging market conditions after 2008, EPR and NER300 did not support the intended progress to demonstrate the commercial viability of CCS and a range of innovative renewables

ECA Report: Main reasons

- Uncertainty around long-term climate and energy strategies and the underpinning policies, regulations and public financial support affected projects' ability to attract private investments and reach FID on time
- The falling ETS market price for carbon emissions since 2011 was a key barrier for CCS demonstration projects in the EU

***Special report No 24/2018: Demonstrating carbon capture and storage and innovative renewables at commercial scale in the EU: intended progress not achieved in the past decade**

ECA Report: Main reasons (cont.)

- Design aspects of NER300 limited the Commission and Member States' ability to respond effectively to the changing circumstances
- The chosen NER300 model to provide public money to projects only after their entry into operation lacked adequate justification and put most of the risk on project promoters
- The NER300 project selection and decision-making processes were complex.
- The selection and grant award process applied by the Commission and Member States placed insufficient emphasis on the comparative quality and financial and economic viability risks of projects.

ECA Report: Main reasons (cont.)

- Member States may not have been sufficiently aware of the risks and recommendations identified by the EIB before endorsing the ranked projects for the Commission award decision.
- There is also scope to enhance the NER300 decision-making in particular for major change requests to projects that now require changes to the legislation.
- The use of specific technology criteria established in advance in 2009 limited the programme's ability to respond to market and technology developments. Projects selected under those criteria may become less disruptive than intended when delays occur.

Recommendation 1: Increasing the potential for effective EU support to low carbon energy innovations

- ✓ *The Commission should where large, capital intensive projects needing a combination of national and EU support are put forward for funding under the proposed Innovation Fund and other relevant centrally-managed EU programmes, **assess their consistency with national climate and energy plans and ensure firm and transparent commitments are obtained from Member States before awarding EU funds***
- *Under the Innovation Fund, clear commitment from Member States, where relevant, will be sought. The recommendation will be taken on board for selection criteria.*

Recommendation 2 – Improving project selection and decision-making procedures for the future Innovation Fund

- a) *establish criteria for withdrawing funding in cases where projects do not meet agreed milestones;*
- **The Innovation Fund foresees to disburse funding against clear milestones. If milestones are not reached, funds will be liberated and redirected to either reserve list projects or subsequent calls.**
- b) *assess aspects of projects' economic viability ('bankability'), including those referred to under Recommendation 1;*
- **Projects' economic viability and risks will be evaluated along with other criteria for effectiveness, efficiency and impact to select the best portfolio of projects to meet the defined objectives in the ETS Directive.**
 - **Robust commitment from co-financing parties in selected projects will be required.**

Recommendation 2 – Improving project selection and decision-making procedures for the future Innovation Fund (cont.)

- c) *define precise and measurable thresholds for each of the due diligence/award criteria;*
- **The Innovation Fund foresees a multi-criteria assessment, which will be a combination of qualitative and quantitative criteria in order to be able to consider all aspects of the innovative projects.**
- d) *make available in confidence the results of the due diligence assessment to concerned Member State authorities prior to the award decision;*
- **All information, which is not confidential and will help projects to go ahead will be shared with Member States, ensuring all involved parties possess transparent information necessary to identify and mitigate important project risks.**

Recommendation 2 – Improving project selection and decision-making procedures for the future Innovation Fund (cont.)

- e) *support projects for which the selection procedure showed that they are likely to contribute the most towards meeting EU priorities;*
- **The selection procedure will ensure a wide portfolio of projects in terms of sectors and Member States, which contribute most towards meeting EU decarbonisation objectives. GHG avoidance/reduction potential of projects will be among key selection criteria.**
- f) *simplify the procedure for project change requests so that it does not require changes to Commission legal acts.*
- **The Innovation Fund Delegated Act will aim for higher flexibility to reflect changing dynamics of innovation, while ensuring the delivery of programme's objectives.**
 - **Project changes, which do not alter the scope of the projects nor the selection procedure, will be managed by the implementing body with higher efficiency.**

Recommendation 3 – Ensuring flexibility of the Innovation Fund to respond to market and technology developments

- a) a flexible approach for defining and updating eligible technologies and thresholds*
- **The eligibility of the projects stems directly from the EU ETS Directive. The projects will be evaluated against contribution to the policy objectives rather than against reaching specific technology or product parameters, which are hard to determine in advance and with certainty.**
- a) organising rolling calls for proposals and award decisions;*
- **The Innovation fund foresees regular calls.**
 - **The financial instruments support, if used, would be available on first come first served basis.**

Recommendation 4 – Better Commission coordination for more coherent targeting of EU support

- a) *perform cross-service assessments to demonstrate that the Innovation Fund, H2020 and InnovFin EDP (and their successors after 2020) are complementary and coherently targeting low carbon energy demonstration projects;*
 - b) *streamline project selection processes between programmes to reduce inefficiencies and overlaps.*
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- **Ensuring synergies is among the main aims outlined in respective programmes proposals.**
 - **InvestEU Programme is a means to simplify and streamline the offer of financial products in support of climate action. This also includes the possibility of blending opportunities with other EU programmes and Innovation Fund, if relevant and needed.**
 - **The Commission will improve the coordination efforts in preparation of the respective grant calls or financial instruments.**
 - **However, specific legal bases setting the selection criteria will need to be respected to ensure adherence to specific policy objectives.**

Recommendation 5 – Ensuring accountability

- a) *clarify the ownership and accountability provisions*
 - b) *ensure that all such funds for which the Commission exercises stewardship are recorded in the budget and balance sheet and subject to annual audit and discharge by Parliament and Council;*
 - c) *include in the legal framework provisions on regular progress reporting to budgetary authorities.*
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- **Accountability provisions will be clearly spelled out in the Innovation Fund regulation**
 - **Measures to ensure sound financial management, including auditing and reporting will be implemented**
 - **Regular progress reporting to relevant budgetary authorities will be foreseen in the Innovation Fund delegated act, subject to chosen governance model.**