Programme to aid economic recovery: financial assistance to projects in the field of energy, European Energy Programme for Recovery (EEPR)

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The Commission presents a report on the European Energy Programme for Recovery (EEPR) established by Regulation (EC) No 663/2009. The EEPR provides financial support to selected highly strategic projects in the energy sector. To recall, the year 2010 was devoted mainly to setting the EEPR in motion. Most of the budget available was allocated to 59 projects in the following sub-programmes:

gas infrastructure (EUR 1363 million);

electricity infrastructure (EUR 904 million);

offshore wind energy (EUR 565 million); and

carbon capture and storage (EUR 1000 million).

The report states that overall, by the end of 2010, grant decisions and grant agreements had been made for a total amount of EUR 3833 million i.e. **96.3% of the total EEPR budget.** An amount of EUR 146 million that could not be committed to projects in these sectors by the deadline of 31 December 2010 was reallocated to a new financial facility, the European Energy Efficiency Fund (Regulation (EC) No 1233 /2010), focusing on energy efficiency and renewable energy investments.

This annual report focuses on the state of play of the programme implementation. An independent mid-term evaluation carried out in 2011 states that the programme, by setting in motion construction works and procurements of equipment and intermediate manufactured goods, is already generating a meaningful impact on the real economy.

The actual implementation of the projects had started in 2010 but it is only in 2011 that it gained momentum. In some cases project implementation is challenging and is advancing slower than initially planned. The economic and regulatory context is particularly challenging for the **Carbon Capture and Storage sub-programme, which is at a crossroad.**

The report outlines problems common to all three programmes.

Complex and lengthy permit granting procedures: the ensuing regulatory uncertainty has led to delays in the final investment decisions. The Commission proposal on the energy infrastructure guidelines is expected to bring about major improvements.

Financing: as a consequence of the credit crisis and the regulatory measures, which followed (Basel III, Solvency II), it has become **increasingly difficult for infrastructure projects to access long term financing.** This coincides with the unprecedented investment volumes expected as many Transmission

System Operators (TSOs) will need to step up their investment plans even threefold. The Commission proposal on the Connecting Europe Facility (CEF), a cross-sector infrastructure fund, is designed to help projects put together the necessary financing package.

The report discusses the sub-programmes in detail.

1. Gas and electricity infrastructure: during the second year of implementation, **good progress has been demonstrated for electricity and gas infrastructure projects**, **notably for the reverse flow gas projects**, with 13 projects completed and in operation. A large majority of the projects, 31 out of 44, are either completed or progressing according to plan.

- Overall, the EEPR is concretely improving the way the internal market works, by providing interconnections between western and eastern parts of the EU, and increasing the security of supply of the country and regions concerned.
- Some **remarkable steps forward are being taken**: the reverse flow gas projects are up and running and avoided a gas supply crisis in the recent February 2012 cold spell. The strong EEPR support to the Southern Gas Corridor projects has been instrumental in the negotiations with supply countries, which are intensifying.
- The electricity projects supported are lending strong impetus to completion of the internal market and bringing major improvements to the security of supply of the countries and regions concerned.
- The completion of an EU- wide energy infrastructure system is progressing thanks to the clearing of bottlenecks and the progressive integration of "energy islands" such as the three Baltic States, the Iberian Peninsula, Ireland, Sicily and Malta.

To date, it is estimated that **the majority of the 31 on-going projects should be completed during the years 2012-13** whilst only a few projects will run until 2017 given the technical, regulatory and commercial challenges they face.

2. Offshore wind energy: the EEPR support to "**turbines and structures**" projects will result directly in an additional 1500 MW of carbon-free electricity production capacity and some projects are already delivering part of this result. The EEPR projects are also generating important learning effects, for instance shortening of production time of offshore foundations and decreases in the installation time of foundations.

In some cases project implementation is **challenging and is advancing slowly**. Timely implementation of the EEPR actions depends heavily on swift progress in permitting procedures. Other framework conditions are also crucial such as the guarantees for offshore wind farms to obtain a grid connection.

For the **wind-grid integration projects**, the licensing of the wind farms to be connected as well as the co-financing to be obtained through the regulatory authorities are the crucial hurdles to be addressed before the final investment decisions can be taken.

3. Carbon capture and storage: good progress was achieved in finalising detailed technical studies for capture units and, to a lesser extent, validation of storage sites.

However, **after its second year of implementation the CCS sub-programme is at a crossroads:** one project has been cancelled and none of the remaining five has yet adopted the final investment decision. There are several reasons for the delays: (i) all permits have not yet been secured; (ii) characterisation of the storage sites has not been finalised; (iii) financial structure has yet to be completed.

As a result, most plants are likely to postpone operation to 2016 or 2017. CCS is a novel activity that, in addition to validating technical and economic aspects, needs to comply with new regulatory frameworks (e.g. for CO2 storage). **Industry and Member States will need to intensify their efforts** if the delays relating to regulatory and financial aspects are to be mitigated for these projects.

4. European Energy Efficiency Fund: lastly, the report gives a brief account of the **European Energy Efficiency Fund**, established by Regulation (EU) No 1233/2010, which is in an early stage of implementation as it has been operational only since July 2011. Very intense activities have been carried out during the first months of operations to launch it and to start to identify projects with a potential for being supported by the Fund.

The report notes that municipalities, ESCOs and other entities acting on behalf of public authorities have already submitted to the fund manager a large number of proposals for projects in the fields of cogeneration, public lighting, district heating and building upgrade. The Commission will report on the progress of the Fund by June 2013.