



Ministerstvo životního prostředí



Programme for the provision of support
from the Modernisation Fund

Modernization of thermal energy supply systems (HEAT)



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1. Eligible applicants

The owners of the solved thermal energy source on the thermal energy supply system¹ (hereinafter "TESS") pursuant to the Act no. 458/2000 Coll. concerning business conditions and state administration in energy sectors and amendments to certain laws (hereinafter the "Energy Act"), who have licenses for the production of heat and/or electricity and a license for distribution of thermal energy, granted by the Energy Regulatory Office pursuant to section 5 of the Energy Act (hereinafter the "license") or TESS owners who do not have the licenses, but the infrastructure is operated by an entity with the above licenses.

The applicant can also be the owner of a new thermal energy source, if the heat output from this source will be fed into the existing TESS with the consent of the owner of the existing TESS, provided that the new source being built replaces at least part of the existing source. Even in this case, the infrastructure will be operated by an entity with the above license.

2. Types of supported projects and measures

Only projects that satisfy the objectives of the program and eligibility criteria can be supported.

The basic types of projects supported include, in particular:

- Modernisation (replacement or related reconstruction) of the heat source in TESS with a change of the fuel used or type of energy to:
 - renewable energy sources (hereinafter "RES");
 - energy use of waste, always in combination with high-efficiency CHP;
 - natural gas² and other natural and synthetic gases with lower emission factor;
 - energy of the surrounding environment (e.g. heat pump);
 - electricity;
 - waste heat energy.
- Renovation or construction of new heat distribution within TESS, including heat exchangers and measurement and control system.

Energy storage systems may only be supported as part of a comprehensive project addressing measures for heat sources.

¹ Thermal energy supply system (TESS) means a system formed by interconnecting a source or sources of heat and the heat distribution system serving to supply thermal energy for heating, cooling, hot water preparation and technological processes, when operated under license for heat generation and license for the distribution of thermal energy; the thermal energy supply system is established and operated in the public interest.

² The transition to sources burning natural gas is only possible as a temporary measure. In addition, these projects are required to enable the integration of renewable and low-carbon gases (including hydrogen or gases of non-biological origin) in accordance with the p. 397 CEEAG.

3. Allocation of resources

For this program 26% of the total funding of the Modernisation fund is allocated. For the regions affected by the decline of coal mining (Moravskoslezský, Ústecký and Karlovarský regions), there will be priority allocation set at 30% in the calls for proposals (see chapter 9.1).

4. Form and amount of support

Support will be provided under a contract concluded with the State Environmental Fund of the Czech Republic (hereinafter "SEF CR") in the form of regularly paid ex post subsidies, i.e. on the basis of documented reimbursed eligible costs (payment request will always be accompanied by copies of invoices and bank statements of accounts or other documents).

Due to the nature of projects, support will be provided within the regime of state aid pursuant to Commission Regulation (EU) no. 651/2014 of 17 June 2014 (hereinafter "GBER") declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty.

The rules on state aid are relevant for all applicants and beneficiaries, regardless of their legal form, if the beneficiary can be characterized as an enterprise in connection with the project (there is or will be an offer of goods or services on the market). According to this definition, a municipality, a non-profit organization or association and other entities can also be an enterprise.

In the Modernisation Fund, state aid and de minimis support will be provided in accordance with the following regulations (full texts of the regulations can be found at www.compet.cz):

- Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union (General Block Exemption Regulation – GBER) – only selected relevant articles (hereinafter referred to as the "GBER Regulation").

- Guidelines on State aid for climate, environmental protection and energy 2022 (2022/C 80/01) (hereinafter “CEEAG”).
- Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid (hereinafter “de minimis”).

Aid granted under the GBER and the CEEAG may not be cumulated with other public aid under the Modernisation Fund in such a way that the maximum allowable aid intensity given by the individual articles is exceeded.

More detailed information on the form of support and state aid conditions are described in the document [Analysis of compliance of the project with the rules for the provision of state aid](#).

Information on public support provided in excess of EUR 500,000 will also be published in the TAM (Transparency award module) information system.

4.1 Relevant articles of GBER

Support for Modernisation Fund projects is provided in the intensities according to the following GBER articles:

- Article 38** Investment aid for energy efficiency measures;
- Article 40** Investment aid for high-efficiency cogeneration (this support can be used for projects consisting exclusively of the installation of a cogeneration unit);
- Article 41** Investment aid for the promotion of energy from renewable sources;
- Article 46** Investment aid for energy efficient district heating and cooling (resources);
- Article 46** Investment aid for energy efficient district heating and cooling (distribution).

The aid intensities according to above articles are effective for the duration of the existing regulations for state aid (GBER, regional map).

All of the above aid, with the exception of support of measures for the distribution of heat in TESS must in determining the eligible costs take into account the so-called counterfactual investment/scenario (without state aid).

The applicant quantifies the costs of the counterfactual investment/scenario that could be implemented without aid and is considered less environmentally friendly. These costs are deducted from the costs of the project implementation and the resulting amount is the eligible costs for calculating the maximum amount of state aid. The percentage of aid intensity will then be applied to these costs according to the relevant GBER, size and location of the company. The applicant may choose the counterfactual investment from the list below that best suits its operational circumstances or technical possibilities.

4.2 Determination of support for above-threshold projects

In cases where the estimated amount of the subsidy exceeds the value specified in Article 4 of the GBER³, it is a so-called above-threshold project. For these types of projects, additional information and annexes may be required, beyond the standard annexes to the application. These may be updated or supplemented with regard to the progress of the assessment and subsequent evaluation process. The amount of support for these projects will be determined on the basis of the funding gap, the so-called cost gap, calculated as the difference between positive and negative cash flows for the duration of the investment, discounted to their present value, using capital contributions. In cases where the types of projects listed below are not involved, individual notification of the project by the European Commission is also necessary.

Replacement and related reconstruction of the heat source in the TESS with a change in the fuel base or type of energy in above-threshold projects for which individual notification of the project by the European Commission is not expected, for heat sources using:

- renewable energy source (hereinafter referred to as “RES”),
- energy use of waste,
- natural gas⁴ and other natural and synthetic gases with a lower emission factor, always in combination with high-efficiency CHP.

³ The determining factor is always the limit valid at the time of issuing the decision on the provision of funds from the State Environmental Fund of the Czech Republic.

⁴ The transition to sources burning natural gas is only possible as a temporary measure. In addition, these projects are required to enable the integration of renewable and low-carbon gases (including hydrogen or gases of non-biological origin) in accordance with the p. 397 CEEAG.

4.3 Determination of counterfactual investment to determine the amount of eligible costs

Heating sources reconstruction projects can choose one of the following scenarios as a counterfactual investment:

- an alternative scenario in the form of financial evaluation of keeping the existing source in operation,
- construction of a gas source with the same installed heat output,
- proposal and calculation of own counterfactual investment/alternative scenario according to the operating situation; the applicant consults this scenario with the SEF CR before submitting the application.

5. Selection criteria for eligibility of projects / project evaluation

5.1 General eligibility criteria

- The stationary combustion source for which support is requested must be operated in full compliance with Act No. 201/2012 Coll., regarding air protection and on amendments to certain other acts, as later amended (hereinafter the "Air Protection Act").
- The project must not be in conflict with the outputs of the program for improving air quality for a particular zone or agglomeration and the National Emission Reduction Program developed in accordance with the Air Protection Act.
- After implementation of the supported project in question (if it is a stationary combustion source) there must be no coal or coal-derived fuels combusted and other most polluting fossil fuels such as lignite, oil and diesel oil and the support does not lead to an increase in energy production from the most polluting fossil fuels (for example by connecting more customers).
- The project implementation period shall not exceed 5 years from the date of approval of the project.
- The project must be implemented in the Czech Republic (hereinafter "CR").
- The applicant must not be a company in difficulty⁵.
- The applicant must not be in bankruptcy, liquidation, and must not have any overdue liabilities towards the state and public budgets, or outstanding taxes and is not a trading company in a conflict of interest⁶.

⁵ Within the meaning of Art. 2 (18) of GBER.

⁶ Within the meaning of the Act no. 159/2006 Coll., on conflict of interest, as amended, including restrictions specified in section 4c of the Act. If the applicant is a legal entity then the application must be accompanied by its ownership structure and data on the actual owners within the meaning of Act no. 253/2008 Coll., regarding measures against the legalization of proceeds from crime and financing of terrorism, as amended.

5.2 Specific eligibility criteria

- Implementation of the project must result – compared to the initial state – in a reduction of:
 - CO₂ emissions by a minimum of 20%, in the case of using waste heat by at least 15%;
 - Consumption of primary non-renewable energy by a minimum of 10%, in the case of using waste heat by at least 15%.
- In the case of the project for energy use of waste the minimum energy efficiency of the facility must be met according to Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 on waste and repealing of certain Directives, and at the same time the so called principle of waste management hierarchy must be adhered to.
- In the case of implementation of a project using biomass fuels it is necessary to comply with the sustainability criteria according to Decree No. 110/2022 Coll. on determining the types and parameters of supported renewable resources and sustainability criteria and greenhouse gas emission savings for bioliquids and biomass fuels, as amended.
- In the case of implementation of a project using biomass fuels, as a transition from natural gas, the following conditions are defined:
 - projects on stationary combustion sources covered by the Directive (EU) 2015/2193 of the European Parliament and of the Council of 25 November 2015 on the limitation of emissions of certain pollutants into the air from medium combustion plants will be supported only if they guarantee compliance with 80% of the emission limit value for emissions of solid pollutants defined by Decree No. 415/2012 Coll. about the permissible level of pollution and its detection and on the implementation of some other provisions of the Air Protection Act, for sources put into operation on or after December 20, 2018,
 - projects on stationary combustion sources covered by the Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control) will be supported only if they guarantee the achievement of the lower (and therefore most ambitious) half of the value interval according to the Best Available Techniques (BAT) conclusions for solid pollutants,
 - there must be no increase in NO_x emissions per unit of fuel energy compared to the original state,
 - the project cannot be supported in the cadastral territory where, according to current maps of the five-year rolling averages compiled by the Czech Hydrometeorological Institute (in accordance with paragraphs 5 and 6, §11 of the Air Protection Act), any of the emission limits set out in paragraph 1 of Appendix No. 1 of the Air Protection Act for PM₁₀ or PM_{2.5} were exceeded.

6. Eligibility of expenditure

6.1 General conditions of eligibility of expenditure

Aid may only be granted for eligible expenditures that meet all the following conditions:

- They are in accordance with CR and EU legislation;
- They are in accordance with the programme, relevant call and methodological instructions provided;
- They are incurred in accordance with the 3E Rule (Economy, Efficiency, Effectiveness)⁷;
- They are in accordance with the terms of the relevant GBER article;
- They are reasonable, i.e. correspond to the usual prices in the place and time;
- They are properly identifiable, verifiable and provable;
- They are directly and exclusively linked to the implementation of the project, created at the time of its implementation, and are part of its budget;
- They are eligible, if costs were incurred after the submission of the application.

6.2 Specific conditions of eligibility of expenditure

The basic eligible costs associated with the investment are, particularly:

- Direct implementation expenses, i.e. expenses for construction works, supplies and services directly related to the subject of support and contributing to the objectives of the project concerned;
- Activities of expert technical/author supervision, ensuring work safety on the construction site;
- Additional work if there are verifiable objective grounds, corresponding to the maximum amount of eligible less work under the given contract for work within the same project;
- Publicity measures;
- Value-added tax⁸;
- Set-off claims/liabilities between the applicant and the contractor.

A more detailed specification of the eligibility of expenditure is contained in the relevant call.

⁷ According to points m) n) o) § 2 of the Act no. 320/2001 Coll., regarding financial control in public administration and amendments to certain laws, as later amended.

⁸ VAT can be considered eligible only for applicants who cannot claim input value-added tax deduction in accordance with Act No. 235/2004 Coll., on value-added tax, as amended.

6.3 Ineligible expenditure

Aid cannot be provided for:

- Measures which do not adhere to the focus of the program and the requirements of the relevant call;
- The purchase of second-hand equipment;
- Expenditure on design documentation and design activities (except for Design & Build (& Operate));
- Acquisition of immovable property;
- Charges for removal of land from the agricultural land fund or land intended to perform forestry functions and the establishment of other services;
- Tax – VAT (except pursuant to Art. 6.2), direct tax, gift and inheritance tax, property tax, real estate transfer tax, road tax, duty;
- Expenditures to ensure relevant opinions;
- Induced investments which are not connected directly and solely with the purpose of the project;
- Repayment of loans, interest;
- Additional work over the amount of eligible work;
- Management fees (e.g. notary fees, land registry fees, fees for issuing building permits, fees for discharging waste water into surface waters);
- Budget reserve;
- Salaries and other personnel expenses, overheads and operating expenses.

7. Contributions of the project and reported indicators

Within the implemented projects, both mandatory indicators which set the minimum requirements for the contributions of the project, as well as the so-called monitored indicators will be monitored and evaluated.

Mandatory indicators that are part of the application will be subject to a contractual obligation to help monitor and measure the achievement of outputs of the project itself. Implementation of mandatory indicators is under the direct control of the project and they must be reached within a predetermined time frame. If the target values for the project of the relevant mandatory indicators are not met, a correction of up to 100% may be applied (depending on the degree of non-fulfilment).

Monitored indicators are not mandatory but are useful for monitoring the outputs of the project in terms of its contribution to national strategic objectives.

7.1 Mandatory (obligatory) project indicators

Mandatory indicators, which are compulsorily selected according to the type of project. Their value must be documented by an energy assessment at least once during the sustainability of the project. They are: reduction in energy consumption (primary, primary non-renewable), reduction of CO₂ emissions, newly installed thermal/electric power (RES, power sources for the energy utilization of waste), production of heat/electricity (without CHP) energy (from RES/waste), production of electricity from CHP (with/without CHP), reconstructed/newly implemented heat distribution systems.

7.2 Monitored (non-binding) project indicators

As non-binding indicators, within the supported projects, the amount of removed emissions from stationary sources of air pollution – PM, PM₁₀, PM_{2.5}, SO₂, NO_x, VOC, NH₃, PAH – is monitored and reported.

8. Legal regime of the object of aid

8.1 Legal relationship to the object of aid and operation

Aid is provided to the applicant if the applicant is or becomes (after the completion of the project) the owner of the subject of support, unless stated otherwise in the text or in the legal act. For this purpose, the owner is considered the operator of the object of support pursuant to law or respectively has the right to manage it (e.g. subsidized organizations, state enterprises).

If this does not exclude the nature of the project, the beneficiary may also be the tenant of the subject of aid, eventually authorized to implement the project and ensure its sustainability. From the rental agreement it must be clear that the owner agrees to the implementation of the project and complies with conditions set out below regarding sustainability of the project. In the case of things acquired with the requested aid that are not part of the real estate (buildings or land) where they are located, it is permissible that the applicant be the tenant of the property in question.

The aid beneficiary shall ensure **sustainability of the project for 10 years**⁹ from its completion¹⁰. Compliance with the obligation of sustainability may be subject to control by the SEF CR and other relevant institutions. In the case of an infringement of sustainability obligations, the beneficiary in some circumstances may be ordered to repay the aid in part or fully.

Aid beneficiaries are then obliged to leave the subject of support in their possession for at least the period of sustainability, i.e. 10 years (unless the legal act provides otherwise or if it is not a legal status according to chap. 8.2.). For this purpose, the owner is considered the operator of the subject of support pursuant to law or respectively has the right to manage it (e.g. subsidized organizations, state enterprises).

In cases that are not clearly set out in the above conditions, the SEF CR assesses the admissibility of the applicant's legal relationship to the subject of support.

⁹ Outside the special legal situations consisting of extraordinary, unforeseeable, unavoidable and accidental events (for example a force majeure).

¹⁰ Project completion means the date the building is put into permanent operation, in accordance with Act no. 183/2006 Coll., on land use planning and building regulations (Building Act), as amended (the occupancy permit, proof of contacting the building authority or written approval that the building can be used).

8.2 Legal status of the object of aid

The subject of aid may not be legally burdened during the implementation or sustainability period without the knowledge of the SEF CR, especially in the form of liens and easements, for which the exercise of rights derived from them may jeopardize the implementation or performance of the purpose of the subject of aid, including ownership rights of the aid beneficiary, except:

- property that is encumbered by a statutory lien or a lien established by law to ensure fulfilment of obligations in provision of subsidy from the state budget, etc.;
- construction of utility networks on land;

The aid beneficiary is obliged to always inform the SEF CR about the legal burden of the subject of support even in the period of sustainability.

The SEF CR will assess the nature of the legal burden and possibly the economic health of the aid beneficiary and determine the next steps.

The SEF CR has the right to request the necessary documents for the assessment.

9. Conditions and method of implementation of the programme

9.1 Receiving and evaluating of applications

9.1.1 Announcements of calls for proposals from the programme

The call text, in full written form, including related documentation, will be published on the SEF CR website no later than the date of the call and will contain all details and conditions for the provision of aid.

Applications will be administered electronically in the **Agenda Information System of the SEF CR**.

9.1.2 Assessment and evaluation of applications

After submission, applications are checked in terms of formal requirements and conditions of eligibility set by the programme and the call, which in the case of their non-compliance are of an exclusionary character.

Together with the evaluation of eligibility of the project, the applicant is also assessed from the point of view of fulfilling the exclusionary condition of the so-called company in difficulty, according to Article 2 (18) of GBER (if relevant) The procedure for evaluation of a company in difficulty can be found in the **[SEF CR guidelines for the evaluation of a company in difficulty](#)**.

9.1.3 Selection of projects for funding:

After meeting the formal requirements, eligibility conditions and economic evaluation of the applicant, the application proceeds to the selection process for project funding. In the case of ongoing calls, the positively evaluated applications are sorted by the date and time of registration of the application.

Applications for above-threshold projects will be, after checking their completeness, formal requirements and eligibility conditions, that is carried out by the Fund, individually submitted for evaluation by the European Investment Bank and issuing a decision by the European Commission¹¹.

Individually submitted applications must also always meet the call's objectives and eligibility criteria and other requirements specified in the call and be in accordance with the rules and conditions of state aid before their submission to the European Investment Bank.

9.2 Contract for the provision of funds from the Modernisation Fund

The contract for the provision of funds from the Modernisation Fund as part of the programme forms an annex to the call and is concluded between the SEF CR and the aid beneficiary after the Decision of the Minister of Environment on the provision of funds from the SEF CR (hereinafter the "Decision"). The contract contains the maximum amount of financial aid provided, specifies the purpose and objectives of the supported project, the rights and obligations of both contracting parties and other conditions for granting the support, including any financial corrections and adjustments.

9.3 Public tenders under the project

The conditions for the implementation of contracts implemented within the supported project are set out in the call. Rules for the implementation of public tenders are governed by a separate document [Guidelines for awarding public tenders for programs co-financed from the SEF CR budget](#) that is available on the official website of the SEF CR.

¹¹ According to Articles 6 and 7 of the Commission Implementing Regulation (EU) 2020/1001 of 9 July, 2020, laying down detailed rules for the application of Directive 2003/87/EC of the European Parliament and of the Council as regards the operation of the Modernisation Fund supporting investments to modernise the energy systems and to improve energy efficiency of certain Member States.

9.4 Monitoring the implementation phase and final evaluation of the project

9.4.1 Monitoring of the project

The implementation of the project and the progress achieved is monitored through continuous monitoring reports submitted by the applicant through AIS SFŽP ČR. The applicant is obliged to submit the continuous monitoring report every year of the project implementation, always no later than January 15 for the previous calendar year. Implementation in this case means the period starting with the signing of the contract and ending with the submission of documents for the final evaluation of the action (FEA).

9.4.2 Completion and final evaluation of the project

The final status of the project and all financial, material and other facts related to the implementation of the project are detailed by the applicant through documents for the completion of the project, proving the fulfilment of the conditions stipulated by the contract on the provision of support and, if applicable, other specific conditions set by the call. The applicant submits the documents required for the FEA in the prescribed format via AIS SFŽP ČR. The documents for the carrying out of the FEA are submitted within the deadline set by the contract, including the required annexes.

9.4.3 Verification of project implementation and control activities

Applicants and beneficiaries of support are obliged to allow subjects carrying out verification and control activities access to the building, in which the supported measure was, is or will be implemented, and to provide all necessary assistance for the proper fulfilment of the purpose of verification and control. Verification activities of the SEF CR are done on the basis of Act no. 255/2012 Coll., on control (control rules), as amended, and Act no. 320/2001 Coll., on financial control in public administration and amending certain laws (financial control act), as later amended.

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