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MODERNISATION FUND

Accelerating the transition to climate neutrality

MODERNISATION FUND

EIB CONFIRMATION OF PRIORITY INVESTMENT

ref. MF 2026-1 HR 0-001

Beneficiary Member State: Croatia

Investment Proposal: Geothermal Energy for District Heating in Local (Regional) Self-Government Units

1. Background

The Modernisation Fund was set up pursuant to Article 10d of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC (the “ETS Directive”).

The legal basis for the operation of the Modernisation Fund is set out in 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 (the “Implementing Regulation”).

In accordance with Article 10d(6) of the ETS Directive, the European Investment Bank (the “EIB”) is to confirm whether a proposed investment falls into a priority area. The EIB may confirm the proposal as a priority investment if the conditions specified in Article 6(7) of the Implementing Regulation are met.

2. Investment proposal

Pursuant to Article 4(1) of the Implementing Regulation, on 12/02/2026 Croatia (the “beneficiary Member State”) submitted to the EIB an investment proposal “Geothermal Energy for District Heating in Local (Regional) Self-Government Units” for which it envisages a contribution from the Modernisation Fund (Modernisation Fund reference number MF 2026-1 HR 0-001).

The investment proposal concerns a scheme for the period 2026–2030 relating to the development of local district heating networks based on proven geothermal potential, aimed at replacing fossil fuel heat sources in the targeted locations.

The scheme is addressed to utility companies wholly owned by local or regional self-government authorities holding a geothermal exploration licence, that have obtained positive results from geothermal resource exploration and have demonstrated proven geothermal potential for heating purposes.

The beneficiary Member State has requested funding of EUR 26 000 000 for a first disbursement under the proposed scheme.

The beneficiary Member State has indicated a total expected Modernisation Fund funding for the investment proposal of EUR 26 000 000.

The primary objective of the scheme is a deployment of district heating (DH) networks utilising proven geothermal resources, with the aim of substituting fossil-fuel-based heat in three targeted locations in Croatia. These locations currently lack district heating infrastructure; the heat demand is met predominantly reliant on fossil fuels and firewood. The development of the district heating networks will be implemented in parallel with the development of the geothermal heat source resulting in increase of renewable heat generation and reduction of GHG emissions.

Renewable-energy-based district heating networks are included among the objectives and measures of the National Energy and Climate Plan (NECP) for Croatia, with the aim of increasing energy efficiency and the share of renewable heat in district heating and cooling systems.

3. *Compliance with the conditions for a priority investment*

- a) The beneficiary Member State has demonstrated that the investment complies with the requirements laid down in Article 10d(1) of the ETS Directive as it supports the modernisation of the energy system and energy efficiency and it is in line with the objectives and measures set out in its NECP.
- b) According to the information provided by the beneficiary Member State and pursuant to Article 10d(2) Directive 2003/87/EC, the investment is considered as a priority investment as it falls under the priority areas:
 - b) heating and cooling from renewable sources.
 - and
 - d) energy storage and the modernisation of energy networks, including demand-side management, district heating pipelines, grids for electricity transmission, the increase of interconnections between Member States and infrastructure for 0-emission mobility.
- c) The beneficiary Member State has sufficient funds available from allowances referred in Article 10(1), the fourth subparagraph of Directive 2003/87/EC – 2.5% and from the auctioning of allowances covered by a notification pursuant

to Article 10d(4) of Directive 2003/87/EC for the requested disbursement, according to the statement of the available funds referred to in Article 5(1) of the Implementing Regulation, and after deduction of any amounts to be disbursed for investments already confirmed in accordance with Article 6(9) of the Implementing Regulation.

- d) The beneficiary Member State has provided evidence that the measures under the investment proposal:
 - do not constitute State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union.
- e) The beneficiary Member State has demonstrated that the investment complies with Article 10f of the Directive 2003/87/EC.
- f) The beneficiary Member State has confirmed in writing that the investment complies with any other applicable requirements of Union and national law.
- g) According to the information provided by the beneficiary Member State, the amounts requested from the Modernisation Fund are not intended to cover the same costs of the investment as those financed by another Union or national instrument.
- h) According to the information provided by the beneficiary Member State, the duration of the scheme does not exceed five years.

4. Conclusions

The EIB has assessed the investment proposal based on the information submitted by the beneficiary Member State in accordance with Article 4 and Annex 1 of the Implementing Regulation and it has concluded that the investment proposal has met the conditions specified in Article 6(7) of the Implementing Regulation.

In view of the above, and in reliance on the information and evidence provided and the confirmations given by the beneficiary Member State as described in paragraph 3 above, the EIB confirms the proposal “Geothermal Energy for District Heating in Local (Regional) Self-Government Units” (Modernisation Fund reference number MF 2026-1 HR 0-001) as a priority investment.

This confirmation is without prejudice to the requirement for a disbursement decision to be made pursuant to Article 10d(3) of the ETS Directive.

European Investment Bank
Luxembourg, 11th March 2026