Denmark's position on the future of EU energy financing tools on infrastructure

Denmark's main priorities for the EU energy financing tools and mechanisms:

- **Introduce a step-based financing model for projects with an identified EU added value.**
- **Conduct a service check of TEN-E and CEF to make them fit for hybrid projects and speed up deployment of projects.**
- **Strengthen the role of the Innovation Fund and the European Investment Bank.**
- **Overhaul financing mechanisms and prioritise the role of private financing at the EU and regional level.**

Cross-border grid infrastructure and renewable energy that flows across borders are increasingly a joint European and regional undertaking, paramount to fostering both European competitiveness, security of supply as well as strategic autonomy and a more energy independent Union. The need for investment in energy infrastructure is highlighted in both the Letta and Draghi reports as a prerequisite for the European competitiveness and a well-functioning Single Market, and that the current setup is insufficient in order to support the necessary buildout.

Access to EU funding and private financing will be a key tool to achieve the EU's energy potential through cross-border projects with a clear EU added value. The demand for financing will most likely only increase given the necessary grid buildout. And while projects may show great socioeconomic benefits in the longer term, there is still a need for joint solutions to de-risk projects when Member States and TSOs cannot carry the upfront costs alone. This is particularly important for RE and grid buildout, but also for CCS and hydrogen infrastructure.

While the first step of sharing costs and benefits between TSOs as well as Member States should be aimed at facilitating the required investments and realising the projects, there will be cases where these upfront costs are too extensive for each Member State or TSO to carry. EU funding could be better streamlined and utilised as a stepping stone to crowd in private investments. There is a need for better risk coverage options for large projects with significant EU added value, as well as a long-term approach to investments in energy projects. In particular, projects that combine interconnection and several generation elements (hybrids) have proven to be complex and difficult to fit into the context of the existing EU funding mechanisms, despite these projects often having significant benefits at the regional and EU level.

Therefore, we propose the following four actions for the Commission:

1. Introduce a step-based model for projects with EU added value

The scope of the CEF for Energy has proven to be insufficient to cover the financing needs of large energy projects that have broader European benefits – which in turn makes it difficult for hosting member state to justify taking on the entire risk that is not proportionate to the benefits.

A step-based model for cross-border infrastructure and RE generation projects with an EU added value should be introduced to improve the existing framework for energy financing and help realise such projects. Identifying and selecting PCIs, PMIs and CB-RES projects that provide benefits at the EU level have shown great results, but these projects are currently only incentivised to look at EU funding options through CEF. Improving access to the different EU financing options for these projects can help accelerate the development and buildout.

Projects with significant European value may not always need direct funding, but could also, depending on their business cases, be better suited for certain loans or guarantees, or a combination of different instruments. Once a project has reached PCI, PMI or CB-RES status, the access to financing, including loans, private financing and direct funding, should cover more avenues and be better facilitated to get the projects realised and cover risks. It

would be worth considering whether some of the many avenues to EU funding and financing could be pooled in this model to increase the utilisation of, for instance, the Renewable Energy Financing Mechanism, the Innovation Fund, loans or guarantees from the EIB, alongside other mechanisms.

2. Conduct a service check of TEN-E and CEF for faster financing

In order for the EU to achieve the necessary buildout of grid infrastructure and RE deployment, it is recommended to look into how the TEN-E and CEF procedures can be streamlined. Currently, projects have to undertake a long process between reaching PCI, PMI or CB-RES status and apply for grants for studies and works. This risks stalling projects unnecessarily. The Commission should look into how these regulations can achieve the following:

- **Make the funding framework fit for hybrids**, where transmission and generation are often closely interlinked and may have a different framework for tenders, connection charges, etc.
- **Facilitate faster deployment** by looking at the timelines and processes for a project to reach status and receive funding. Large and complex projects require earlier investment decisions by developers and TSOs, which does not fit into the current CEF framework, where it takes years before a project receive a decision on funding.
- **Introduce a clear definition of cost-reflectiveness and sharing of costs and benefits as part of the evaluation criteria** in TEN-E and CEF to ensure that all users that benefit from grid connections will be included at an early stage and contribute to the realisation of a project. A project that accounts for true cost-reflectiveness and has a fair share of costs and benefits distributed among the involved Member States should score higher in the selection and funding process.

3. Strengthen the role of the Innovation Fund and the European Investment Bank

The EU Innovation Fund has a significant potential to become a driver of RE generation and infrastructure buildout. By activating the Innovation Fund in relation to hybrids and cross-border projects, as well as their supply chains, it would help realise large and innovative projects that will fast-track grid buildout. The Commission could look into how the Innovation Fund can play a bigger role, whether that requires change in scope of applicable projects, adjustment of calls, or similar.

The European Investment Bank (EIB) should also play a key role in facilitating the realisation of cross-border RE projects and joint investments for both private as well as public actors. The EIB and other financial institutions should be able to help realise large-scale projects that have an EU added value. It is encouraging that the EIB Group has committed to consolidating its role as the climate bank in its 2024-2027 Strategic Roadmap with new initiatives, a new assessment process to fast-track standard projects with low-risk counterparties, and specific initiatives on the energy transition to invest in physical infrastructure, energy storage and renewables.

4. Overhaul financing mechanisms and strengthen the role of private financing

The Renewable Energy Financing Mechanism is a framework that has set a precedence for matching Member States' supply and demand of renewable energy across borders, but the framework is not sufficient for large projects that will go beyond 2030. We propose to build upon this to make it fit for a post 2030-framework, especially in cases of large projects with EU added value, where benefits and costs should be fairly distributed and private financing should be fast-tracked. Furthermore, it is worth exploring whether other initiatives, such as pooling of private financing at the EU or regional level, could help develop projects faster in the different sea basins.

In the political guidelines from the President of the Commission it is suggested to “use the power of the budget to leverage and de-risk private investment in our common goals”. A risk-sharing mechanism could be introduced where the pricing of a specific guarantee must be on market terms, thereby reducing red tape. In our proposal, the EU budget would be utilised to cover the risk associated with large-scale strategic projects and in return receive a premium paid by the European export credit agencies involved in the project. The mechanism would be expected to create balance over the years because the premium reflects a premium obtained on reinsurance in the private market and therefore the market's assessment of the risk on a specific large-scale project. This simple arrangement has the potential to significantly increase the capital available for strategic investments in large-scale projects.