

Summary and Evaluation

- 1.1 Climate protection and the reduction of greenhouse gas emissions are the EU's top priorities linked to the course and commitments stipulated in the *Paris Agreement* and the *United Nations Framework Convention on Climate Change*¹. Bound by these international treaties, the EU is gradually taking action to ensure the fulfilment of the climate neutrality by 2050 objective. The *Modernisation Fund*, which was established by Directive 2003/87/EC² and which supports, among other things, investments in the development of renewable energy production facilities, is intended to contribute to decarbonisation in the Czech Republic. The revenues of the MF are dependent on the market price of emission allowances.
- 1.2 The SAO audited funds of the *Modernisation Fund* received by the State Environmental Fund of the Czech Republic for the support of renewable energy sources. As of 30 June 2024, the SEF had received funds from the European Investment Bank (hereinafter also the "EIB") in the total amount of CZK 105.6 billion and, as of the same date, had paid out a total of CZK 32.8 billion to the beneficiaries. Of these funds, CZK 12.7 billion constituted subsidies from the *New Renewable Energy Sources* programme (hereinafter also "RES+").³ The SAO examined whether the funds were spent effectively and in accordance with legal regulations and how they contributed to the increase in the installed energy capacity of RES in the Czech Republic. The SAO audited the MoIT's ongoing fulfilment of the objective of increasing the share of RES in gross final energy consumption, the setting of the parameters for the operating aid⁴ for renewable energy production facilities and the volume of operating aid provided in the audited years.
- 1.3 **By 2030, the Czech Republic is expected to reach a 30% share of RES in gross total energy consumption, compared to 18.59% in 2023. To achieve the 2030 target approved by the Czech government⁵, it will be necessary to install PV power plants with a target capacity of 10.1 GWp⁶ and wind power plants with a capacity of 1.5 GW to the grid. The supported projects from the four audited RES+ calls with the requested subsidies in the amount of CZK 12 billion and a total planned newly installed capacity of 2.2 GWp will double the installed PV capacity in the Czech Republic compared to 2022. This amounted to 2.1 GWp.**

¹ *Accord de Paris* (2015); *United Nations Framework Convention on Climate Change* (1992).

² Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

³ Most of the funds were disbursed from the HOUSEnergy programme (CZK 18.6 billion), see Annex 5 of the Audit Report.

⁴ These funds are intended for the operation of the facilities for energy production from the supported sources. Operating aid is covered by the state budget subsidies and revenues from the service charges of the electricity distribution and transmission networks, which are ultimately paid by end consumers through the distribution system operators and the transmission system operator.

⁵ Resolution of the Government of the Czech Republic No 960 dated 18 December 2024, *on the amendment of the National Energy and Climate Plan of the Czech Republic*.

⁶ For PV power plants, the unit "peak" (peak power) is usually used to indicate capacity, specifically kWp, MWp or GWp. Peak power refers to the maximum power that a photovoltaic panel or an entire power plant can produce under standard test conditions.

The MoE and the SEF used the RES+ programme to support only photovoltaic projects. Other RES projects were not supported. The SAO found that other types of renewable energy production facilities cannot be supported from the MF, as the Czech Republic has justified its planned investments of CZK 73 billion in RES+-financed PV projects with the EIB as of 30 June 2024, which represents 95% of the latest estimate of the RES+ allocation until 2030.

The SAO found that the MoE and the SEF set the conditions for the support of PV in such a way that the level of support, expressed as the amount of subsidy per unit of PV capacity, varies significantly depending on the category of beneficiaries. While business entities received an average of CZK 5,500 per kWp of PV capacity, households, municipalities and organisations established by municipalities received on average CZK 29,700 per kWp of PV capacity. Therefore, at the same level of support, the contribution of PV in households and public buildings to the planned newly installed PV capacity is five times lower compared to projects of business entities.

The SAO analysed the structure of the beneficiaries and found that three-quarters of the support from the audited RES+ calls was received by the 15 largest beneficiaries in terms of the amount of support for 219 projects, with the total subsidy amount of CZK 9.1 billion. The largest beneficiary received support in the amount of CZK 4.4 billion for 49 projects.

When auditing the conditions of support, the SAO found that, in two audited calls, the MoE and the SEF had subsidised coal regions⁷. Due to this advantage, the total installed capacity of PV power plants in coal regions is set to increase more than sixfold compared to 2022, while in other regions of the Czech Republic, it will rise by only one-third.

Furthermore, the SAO concluded that the MoE and the SEF did not sufficiently incentivise investments in electricity storage. Investments in newly installed RES capacity supported in the first four audited RES+ calls include new battery storage capacity, amounting to only 7% of the planned installed PV capacity.

As the SAO found during the audit of the conditions of the audited RES+ calls, the MoE and the SEF set the conditions in such a way that they allowed the beneficiaries to proceed inconsistently when selecting a contractor. Most beneficiaries did not have to follow any rules when selecting contractors.

The audit examined 12 projects where the SAO concluded that the funds were used in accordance with the approved objectives and that the expected results were achieved in the form of the planned newly installed RES capacity or new electricity storage capacity.

The SAO's audit did not find any ineffective use of funds from the *Modernisation Fund* earmarked to support renewable energy production facilities, nor any violation of legal regulations.

1.4 The overall evaluation above is based on the following findings:

⁷ Karlovy Vary Region, Moravian-Silesian Region and Ústí nad Labem Region.

The amount of available funds from the *Modernisation Fund* depends on the price of emission allowances

- 1.5 The allocation of MF funds is based on the market price of emission allowances and the volume of auctioned allowances for the MF. The average price of an emission allowance in the audited period ranged from EUR 54.2 in 2021 to EUR 83.7 in 2023.
- 1.6 According to the MF Status Report⁸ of September 2024, the forecast of available MF funds for the Czech Republic in total has decreased by CZK 116.6 billion compared to the revised programming document from the end of 2023. The amount of available funds for the RES+ programme has decreased by CZK 23.3 billion compared to the revised programming document.

The RES+ programme finances mainly PV projects, leaving only a minimal amount of funds to support other renewable energy sources

- 1.7 The Czech Republic has justified investments of CZK 73.0 billion in RES+-financed PV projects with the EIB, which constitutes 95% of the latest RES+ allocation estimate from September 2024.
- 1.8 If there is no increase in the MF revenues between 2025 and 2030, and the already approved RES+ programme investments are implemented, there will be no funds in the MF left to support other renewable energy production facilities.

95% of the funds disbursed by the SEF from the MF as of 30 June 2024 were directed to support households

- 1.9 In 2023, due to insufficient state budget funding for the NGS programme, the Czech Government decided to include this programme under the *Modernisation Fund*. The SEF provides the MF funds for the NGS projects from the HOUSEnerg programme, and in the case of PV installations on family houses, from the RES+ programme. As of 30 June 2024, the SEF had paid out a total of CZK 32.8 billion to the beneficiaries of the MF support, of which CZK 31.1 billion for projects implemented under the NGS programme.
- 1.10 The Funds provided by the MoE and the SEF from the RES+ programme to households for PV installations on family houses and municipalities for PV installations on public buildings contribute less to increasing installed renewable energy capacity compared to the funds provided by the MoE and the SEF to business entities through the RES+ programme for predominantly larger ground PV installations. As of 30 June 2024, the MoE and the SEF have provided from the RES+ programme:
 - CZK 12.6 billion to households for the installation of PV on family houses with a capacity of 0.42 GWp;
 - CZK 2.5 billion to municipalities and organisations established by the municipalities for the installation of PV on public buildings with a capacity of 0.08 GWp;
 - CZK 3.3 billion to business entities for PV installations up to 1 MWp with a total capacity of 0.4 GWp;

⁸ *Report on the State of Implementation of the Modernisation Fund in the Czech Republic*, which was submitted by the Minister for the Environment to inform the meeting of the Government of the Czech Republic on 10 October 2024 (hereinafter the “MF Status Report”).

- CZK 8.7 billion to business entities for PV installations above 1 MWp with a total capacity of 1.8 GWp.

Only 15 beneficiaries received more than CZK 9 billion in support

1.11 Three-quarters of the support from the audited RES+ calls were received by 15 beneficiaries or interrelated economic groups for 219 projects with a total subsidies of CZK 9.1 billion. The largest beneficiary received support in the amount of CZK 4.4 billion for 49 projects. The SAO analysed the structure of beneficiaries and found that within the RES+ calls, applications for support were submitted, among others, by newly established subsidiary business corporations, usually limited liability companies (s.r.o.), founded by parent business corporations for the purpose of constructing new PV power plants with potential support from the MF. This is a business model where the parent business corporation (the controlling entity) establishes separate legal entities, usually LLCs (s.r.o.), for individual PV construction projects, which gain licences for conducting business in the energy sector and become beneficiaries. This business model allows, for example, to change the ultimate owner of the PV power plant by changing the ownership structure of the beneficiary even during the implementation or sustainability period of the project.

The MoE and the SEF set different conditions for calls under the RES+ programme for coal regions

1.12 The SAO found that in the competitive calls (above 1 MWp) under the RES+ programme, the MoE and the SEF subsidised projects from the coal regions of the Czech Republic, which resulted in more cost-effective projects in other regions not receiving support. In non-competitive calls (up to 1 MWp), the coal regions were not given preferential treatment. In non-competitive calls, support for the coal regions represented 24% of the total amount of subsidies in the amount of CZK 3.3 billion; in the case of competitive calls, it represented 86% of the total amount of subsidies in the amount of CZK 8.7 billion.

Applicants were not interested in investing in battery storage of electricity

1.13 Investment support from the RES+ programme was directed, among other things, towards the battery storage of electricity from RES. However, 74% of the supported projects in the first four RES+ calls did not include investments in the storage of electricity from RES. The SAO found that, in the case of these calls, the SEF supported projects with a total installed PV capacity of 2.2 GWp, while these projects include investments in the storage of electricity from RES with a new capacity of only 0.15 GWh.

The conditions of the audited RES+ calls allowed for an inconsistent approach by the beneficiaries in the selection of contractors

1.14 The MoE and the SEF set the conditions of the audited RES+ calls in such a way that unless the beneficiary voluntarily decided to proceed according to Act No 134/2016 Coll., on public procurement, or the *Guidelines for procurement in programmes co-financed from the budget of the SEF CR* (hereinafter also the “SEF Guidelines”), they did

not have to follow such rules.⁹ The public contracting authorities, which are obligated to follow the law, were the exception.

Operating aid from the state budget for RES in 2021–2023 reached a total amount of CZK 73.8 billion

1.15 Operating aid for RES is financed from the state budget and payments for transmission and distribution system services. The Czech Government sets the amount of such state support annually in order to mitigate the impact of energy prices on end consumers. During the energy crisis in 2022–2023, the charge for supported sources was temporarily abolished; however, it was reintroduced in 2024, virtually negating the beneficial effect of falling market prices on the price of electricity. In 2021, the MoIT provided CZK 22.2 billion from the state budget to subsidise electricity and heat, in 2022, it was CZK 26.2 billion, and in 2023, it was CZK 25.4 billion.

⁹ This concerns most of the projects implemented by business corporations. In the case of several projects implemented by public entities, e.g., municipalities, these beneficiaries were obligated to follow Act No 134/2016 Coll.

