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Public

Environmental and Social Data Sheet¹

Overview

Project Name:	KAUNAS DISTRICT HEATING UPGRADE
Project Number:	20230620
Country:	Lithuania
Project Description:	Financing of a three-year investment programme concerning the upgrade and extension of the district heating networks in Kaunas city and several other, smaller municipalities, including modernisation of existing and construction of new heat generation assets.
EIA required:	no
Invest EU sustainability proofing required	yes
Project included in Carbon Footprint Exercise ² :	no

Environmental and Social Assessment

This 3-year (2024-2026) investment programme concerns the district heating system in the Kaunas region and consists of a retrofit and extension of the district heating network and construction and modernisation of biomass boilers in Kaunas and neighbouring municipalities in Lithuania. The retrofit will allow a decrease in losses of the network by replacing the old pipes with modern, pre-insulated ones. The extension of the networks will also bring about demand-side energy efficiency gains by connecting newly built houses and service buildings to the network as well as by replacing the local and individual heat sources in the existing buildings.

90% of heat delivered by the Kaunas district heating system comes from renewable sources, therefore the system is efficient per the Energy Efficiency Directive 2012/27/EU (as amended by (EU) 2018/2002) definition of an efficient DH system. The modernised and new generation facilities will comply with the relevant EU legislation including the Industrial Emissions Directive 2010/75/EU.

¹ The information contained in the document reflects the requirement related to the environmental, social and climate information to be provided to Investment Committee as required by the Invest EU Regulation and it represents the equivalent of the information required in the template of the InvestEU sustainability proofing summary.

² Only projects that meet the scope of the Carbon Footprint Exercise, as defined in the EIB Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: 20 000 tonnes CO₂e/year absolute (gross) or 20 000 tonnes CO₂e/year relative (net) – both increases and savings.



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Environmental Assessment

Some of the investments in heat generation and distribution systems included in the programme fall within the Annex II of the EIA Directive 2011/92/EC amended by Directive 2014/52/EU³ thus requiring a review by the competent authorities at the planning/consent stage with due regard to the necessity for environmental and biodiversity impact and appropriate assessments. The programme co-financed by the Bank will not include any screened-in investments.

The biomass to be used in the new and in the modernised boilers will be purchased via the biomass exchange Baltpool which ensures that the delivered fuel aligns with the EU biomass sustainability criteria principles as defined in Directive EU 2018/2001 (Article 29) and with the EU Timber Regulation (EU/995/2010).

Overall, the environmental impacts of the project are expected to be minor and related mainly to noise, vibration, dust, and traffic disruption during the construction (this concerns mostly investments in the district heating network) and to airborne emissions during operation of heat generation units, i.e., boilers (particles, NOxes). Appropriate mitigation measures (conducting works only during the day, applying measures to limit dust generation, flue gas cleaning installations) are envisaged to minimise the investments' impacts during construction and operation.

The project's potential positive environmental and social impacts result from advantages of district heating over individual boilers. The project is to be implemented in urban environment therefore no impact on biodiversity and protected areas is expected. The Bank reviewed the environmental and social capacity of the Promoter including its organisation, processes and procedures, and deemed them to be good.

Climate Assessment

- ***Climate change mitigation***

The project contributes to the RE objectives as stated in Lithuanian National Energy and Climate Plan for Lithuania which sets 90% biomass target for DH sector for 2030 (Kaunas DH system has already reached 90%).

Absolute emissions of the project are zero, relative emissions are negative and reach 1.5 kt of CO₂ per year, therefore, the project is not included in the Carbon Footprint Exercise.

- ***Paris Alignment of projects***

The project has been assessed for Paris alignment and is considered to be aligned both against low carbon and resilience goals against the policies set out in the Climate Bank Roadmap (renewable heat and combined heat and power generation using sustainable biomass, district heating network, immaterial physical exposure to climate change).

EIB Paris Alignment for Counterparties (PATH) Framework

The Promoter is a heat generation and distribution company. It has been screened in because it is a public sector entity, its size is above the thresholds and the nature of their main business, i.e., heat generation and supply, puts it in a high emitting sector category. The assets of the Promoter are not vulnerable to climate related events, as they include mostly underground pipelines and generators of heat and electricity located in well protected buildings not exposed to flooding.

³ (Annex II (3)(a) for production of electricity and steam/hot water and Annex II (3)(b) transport of steam/hot water.



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The mid-term target of emissions reduction between 2022 and 2026 has an annual reduction rate above 20%.

The Services performed a PATH resilience assessment for Kauno Energija and found the counterparty was aligned with the EIB PATH resilience requirements.

The counterparty has committed to develop a long-term plan for zeroing emissions by mid-century and will announce this plan by the end of 2025. Besides the lack of long-term plan, the counterparty is deemed to meet the requirements of the PATH framework.

Conclusions and Recommendations

InvestEU Sustainability Proofing: The Project is carried out in compliance with applicable national and EU environmental and social legislation. None of multiple independent investment schemes included in the project are listed in Annex 1 of the EIA Directive. Some of them are listed in Annex 2, however, only those screened-out are included in the project co-financed by the Bank. Considering the type of investments, they are deemed to have low residual ECS risks and impacts. No further sustainability proofing is required.

Based on the information available, the Project is expected to have minor negative residual impacts and thus is acceptable for Bank financing from an environmental and social perspective provided the fulfilment of the following undertakings:

- The Promoter undertakes not to allocate the Bank's funds to programme components that require an Environmental Impact Assessment (EIA).
- The Promoter undertakes to provide the Bank with the EIA screening-out decisions from the competent authorities for nature and environment.
- The Promoter undertakes to take into account and implement conditions expressed in any EIA screening-out decision granted by the competent authority for nature and environment.
- The Promoter undertakes to store and keep updated any documents as may be relevant for the project supporting the compliance with the provisions under the EU Habitats and Birds Directives and shall upon request promptly deliver such documents to the Bank.

All the biomass sourced as a fuel for the project need to align with the EU biomass sustainability criteria principles as defined in Directive EU 2018/2001 (Article 29) and with the EU Timber Regulation (EU/995/2010).

The wood supply chain and the underlying forest management practices are to be certified, or if not yet certified, they have to be aligned with the standards so as to be certifiable by internationally accredited certification schemes (e.g., FSC or PEFC).

The Promoter undertakes not to invest in incompatible activities, in line with the EIB's PATH framework.

The Promoter undertakes to develop and publish within the 24 months after the signature of the financial contract with the Bank a long-term plan for zeroing company's GHG emissions (Scope 1 and 2) by the year 2050.