Financing of Energy Projects
Improving Energy Networks

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The European Investment Bank (EIB)
Long-term finance promoting European objectives

- European Union’s long-term lending bank set up in 1958 by the Treaty of Rome
- Shareholders: 27 EU Member States
- EIB lending

2009: EUR 79.1bn
2010 (provisional): EUR 71.7bn
EIB Priority Lending Objectives

EU and Pre-Accession Countries

- Economic and Social Cohesion and Convergence;
- Implementation of the Knowledge Economy;
- Development of Trans-European Networks (TENs);
- Protecting and Improving the Environment and Promoting Sustainable Communities;
- Support for SMEs; and
- Supporting Sustainable, Competitive and Secure Energy

Outside the EU

- Private sector development
- Financial sector development
- Infrastructure development
- Security of energy supply
- Environmental sustainability
- Support of EU presence
EIB Lending Strategy in Energy Projects
Priority lending areas supporting sustainable, competitive and secure energy

**EIB 2010 Lending to Energy by Objectives**

- **Renewable Energy** 34%
- **TEN-E** 13%
- **External energy security** 10%
- **Energy Efficiency** 13%
- **Diversification and security of internal supply** 30%

Total lending to the Energy sector amounted to 18.1 billion EUR in 2010
EIB Lending to the Energy Sector

EIB lending to the Energy sector more than quadrupled over 5 years
EIB Lending to the Energy Networks
Lending to electricity and gas networks, incl. TEN-E, 2007-2010

- Financing of 83 projects/programmes including 57 TEN-E across 23 countries
- Cumulative lending of EUR 18.2 bn supporting a total investment of EUR 56 bn
- Recently strong positive impact of EEPR grants in accelerating the development of large interconnectors
Some Lessons Learned
from Financing of Energy Network Projects

Electricity Transmission

- Technical features and performances quite homogeneous across EU
- Lengthy approval processes (including TEN-E), original project designs often significantly reviewed
- Increasing use of cables and HVDC technology; some technical challenges in an otherwise very mature sector;
- Justification of a consistent part of investments relies on support to integration and dispatching of wind resources

Electricity Distribution

- Large programmes, difficult to assess economic benefit and to monitor
- Technical/performance gap between old and new member states (rehabilitation need)
- Smart grid concept progressing slowly (automation, remote control, smart metering), need of regulatory support and tariff incentives to stimulate innovation

Gas Transmission and Distribution

- Different regulatory systems with cross-border interconnectors
- Considerable market risks often not covered by the TSO regulation
- Long term capacity bookings at fixed tariffs need to be secured (i.e. gas supply/demand risks to be carried by shippers)
EU Energy Infrastructure Priorities for 2020

Priority Objectives for Electricity Networks

- Transport and balance electricity from renewables (expected to more than double over 2007-2020)
- Single Internal Electricity Market (IEM) by 2014 to achieve greater price harmony across borders
- Adoption of technical standards for Smart Grids by end-2012

Priority Objectives for Oil&Gas Supplies

- Increase competition and security of supply through diversification of gas sources and import routes, reduction of single-source dependency and improvement of network interconnection and bi-directional gas flows
- Secure uninterrupted oil supply to land-locked countries in Central-Eastern Europe

To achieve these objectives 7 priority corridors + one horizontal priority for Smart Grids have been identified.
Energy networks show substantial investment needs: about EUR 60 bn/year until 2020 (3/4 electricity and 1/4 gas)

- Electricity: growing needs of renovation (in particular for distribution grids) & integration of fast growing renewables sources
- Gas: diversification and security of supply

Challenges:
- Uncertain/lengthy permitting procedures
- Market risks
- Not coordinated regulation
- Policies on security of supply
- Rising financing costs
EIB Financing
Benefit and main facilities

- Benefits of low cost of funding by AAA-rated bank passed on to clients:
  - Large amounts
  - Broad range of currencies
  - Long maturities
  - Attractive interest rates (non-profit maximising – lending at close to the cost of borrowing)
  - Catalytic effect on participation of other banking or financial partners

- Main facilities:
  - **Direct Loans**
    - Large-scale projects (more than EUR 25m)
  - **Intermediated Loans**
    - Small and medium-scale projects (particularly to SMEs) via national and regional intermediary banks
EIB Innovative Financing Instruments
Facilitating additional investment in energy infrastructures

- Structured Finance Facility (SFF)
  - to fund projects with a higher risk profile and enable equity financing; mezzanine and guarantee operations

- Investments in Equity Funds (e.g. Marguerite)
  - to take direct equity participations in infrastructure investments

- Risk Sharing Finance Facility (RSFF)
  - in conjunction with the EC, to provide higher-risk financing for innovative projects in the sectors of technology platforms and R&D

- Europe 2020 Project Bond Initiative
  - credit enhancement mechanism currently under evaluation
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