



# Financing of Energy Projects

## Improving Energy Networks

*Nicola Pochettino*  
*European Investment Bank*

# Contents



- The European Investment Bank
  - Priority lending objectives
- EIB Lending Strategy in Energy Projects
  - Lending to energy networks
- EU Energy Infrastructure Priorities for 2020
  - Needs and challenges
- Financing Instruments



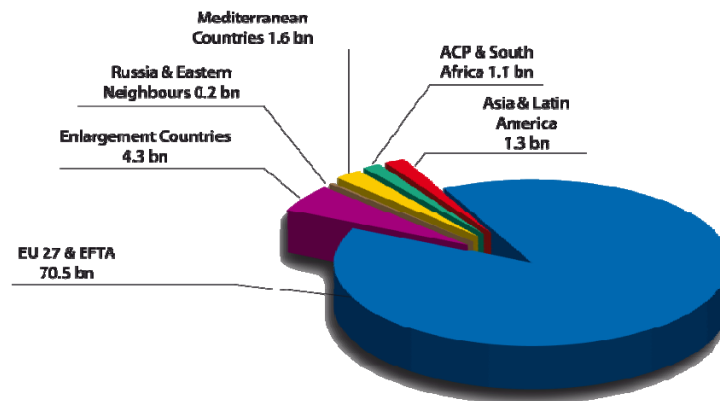
# The European Investment Bank (EIB)

Long-term finance promoting European objectives

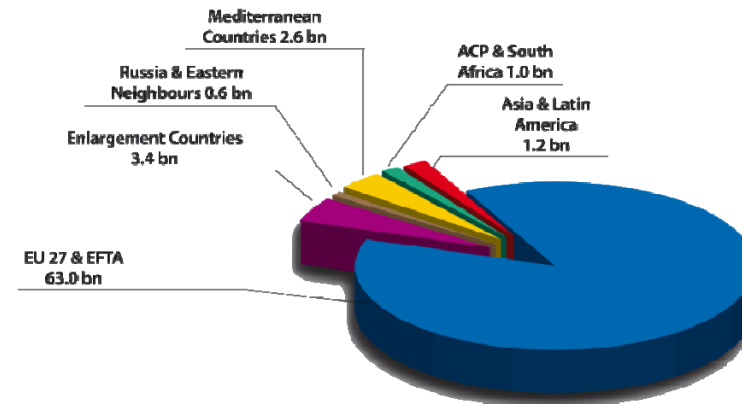


- ❖ European Union's long-term lending bank set up in 1958 by the Treaty of Rome
- ❖ Shareholders: 27 EU Member States
- ❖ EIB lending

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

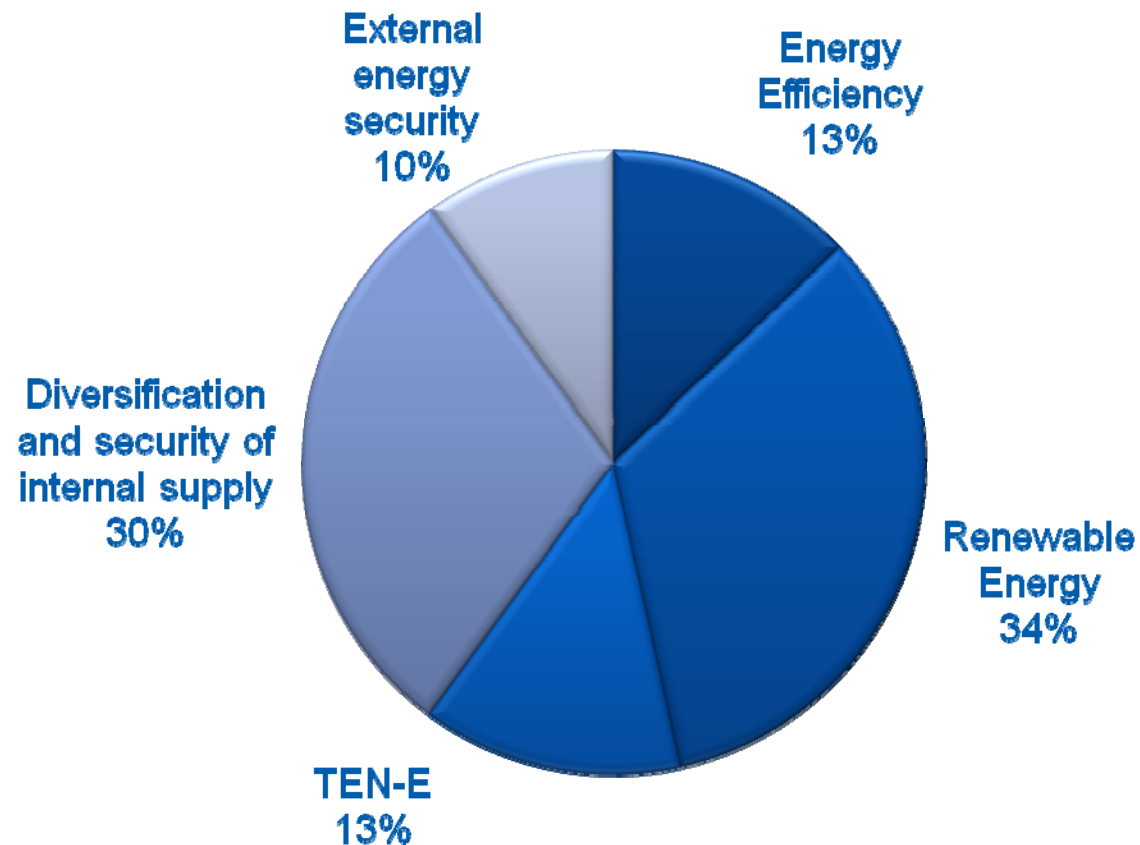


# EIB Lending Strategy in Energy Projects

Priority lending areas supporting sustainable, competitive and secure energy

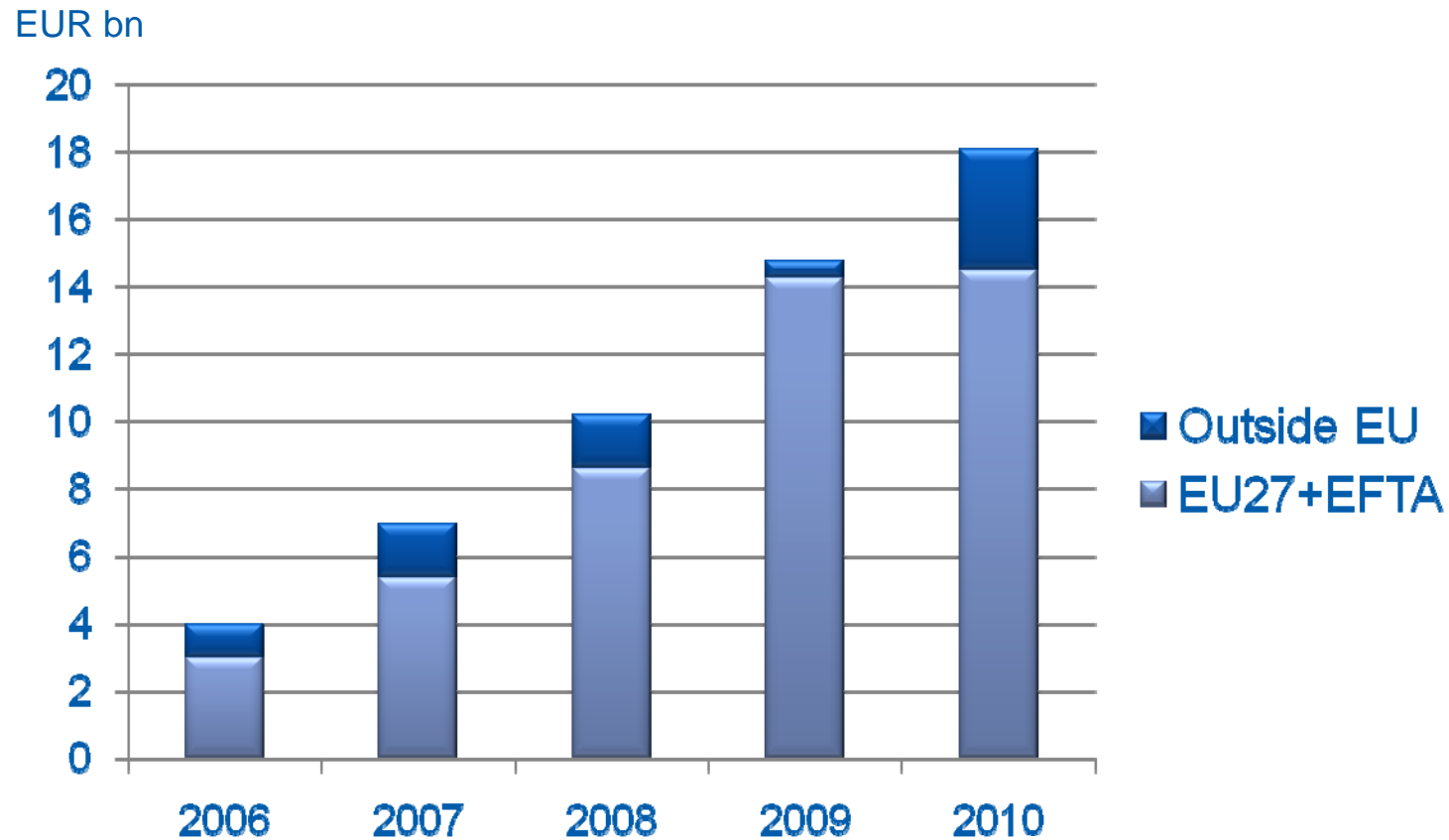


## EIB 2010 Lending to Energy by Objectives



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

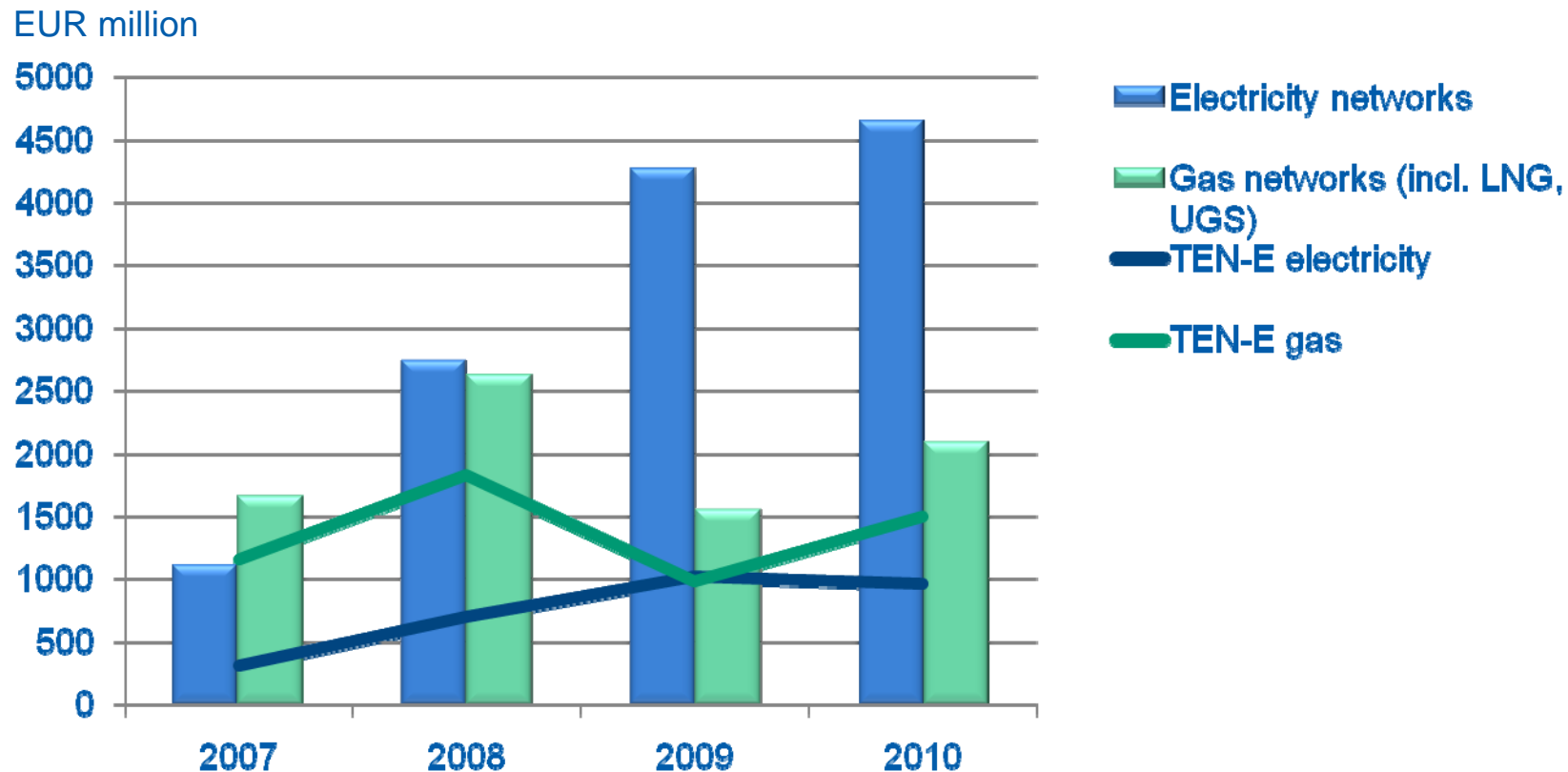
## EIB Lending to the Energy Sector



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 EPR 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

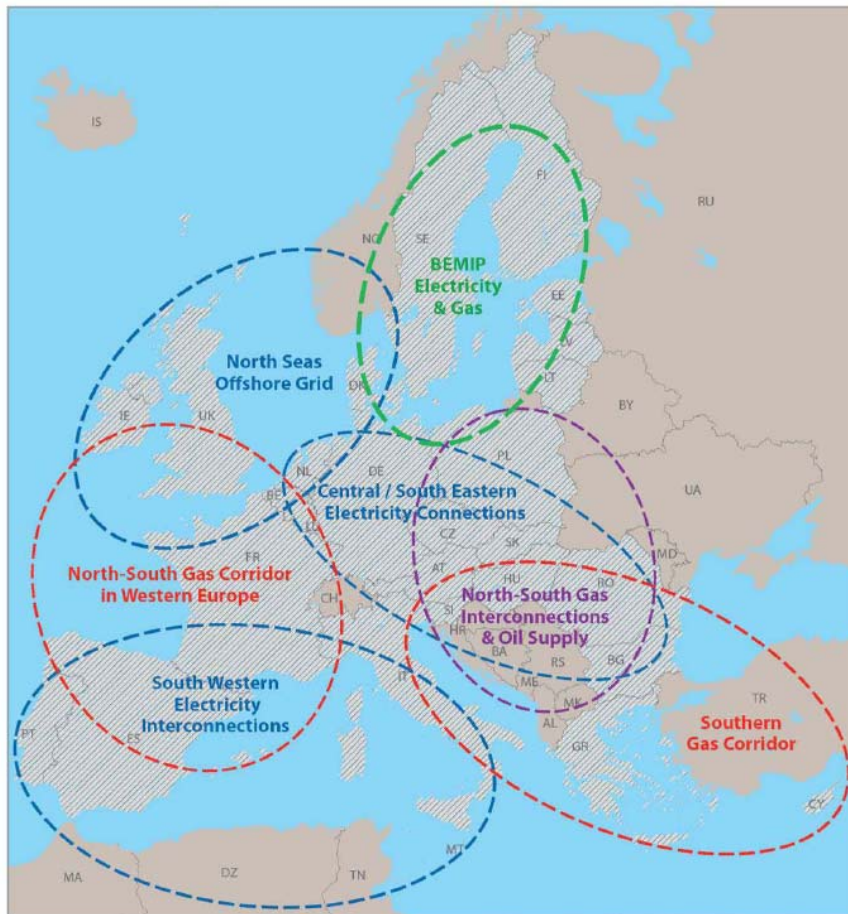
- ❖ Large programmes, difficult to assess economic benefit and to monitor
- ❖ Technical/performance gap between old and new member states (rehabilitation need)
- ❖ Smart grid concept progressing slowly (automation, remote control, smart metering), need of regulatory support and tariff incentives to stimulate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



- Gas
- Electricity
- Electricity and gas
- Oil and gas
- Smart Grids for Electricity in the EU

## 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.

## Needs and Challenges



- 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

 For more information



<http://www.eib.org/>

[info@eib.org](mailto:info@eib.org)

Tel: (+352) 43 79 - 22000

Fax: (+352) 43 79 - 62000