



Project Finance

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What is Project Finance?

Corporate vs non-recourse/limited recourse lending

Corporate lending	Non-recourse/Limited recourse lending (Project Finance)
<ul style="list-style-type: none">▪ Lending against the company's <u>balance sheet</u>▪ Financial projections extrapolated from <u>past performance</u>▪ <u>Secured on corporate assets and cash flows</u>	<ul style="list-style-type: none">▪ A <u>Special Purpose Vehicle</u> (the Project Company) is created with the only purpose of implementing the project (the SPV has no past activity, no assets)▪ Lending against <u>project's cash flows (income streams)</u>▪ Typical security includes pledges of <u>shares of the SPV and project assets, PPA revenues</u>
<p><u>Investors/Promoters:</u></p> <ul style="list-style-type: none">❖ Utilities and power generators with large balance sheets, specialised in the sector	<p><u>Investors/Promoters:</u></p> <ul style="list-style-type: none">❖ Investors and power generators with limited balance sheets, looking to diversify/leverage

Key sectors in which PF is used

❑ Renewable Energy Generation

- Massive investments in RE Generation
- PF structures essential, as (i) traditional utilities' balance sheets will not suffice and (ii) additional smaller market players will be required to cover the investment gap
- Innovative financings required along with technological progress, meaning that public support / subsidies will be less required (cost of production competitiveness with other sources)
- Strong market trend toward acceptance and mitigation of Price/Merchant risks and furthering PPA provision

❑ Energy Infrastructure

- Increase of the interconnection capacity through new interconnectors – establish a more efficient and stable internal market Europe-wide
- Increase of Energy Storage capacity – balancing energy market and stabilizing energy prices
- Blending of infrastructure and Industrial projects (e.g. EV, Supply chain, Carbon Capture, Energy Efficiency)
- PF models developed for this infrastructures provides wider geographical reach and capacity expansion

❑ Transport

- TEN-T projects to support free movement & ensure fair spatial development
- Large investments foreseen in more sustainable transport mode such as rail (infrastructure and rolling stock)
- New transport modes linked to Clean mobility - charging stations, hydrogen production and related infrastructures
- Model shift required in order to comply with the EU Directive with regards to liberalization.

EIB's support to Poland on-shore wind farms



EDPR Green Energy Loan (Poland)



- Comprising a portfolio of 6 windfarms, each set up as an individual SPV, totaling ~149MW.
- EIB PF loan of c. PLN 304m, comprising ~40% of the senior debt.
- EIB's loan with a tenor of 15 years, backed by an **InvestEU** guarantee.
- Debt to equity ratio approx. 70:30.
- Long-term loan facilities were disbursed after the completion of the construction.
- The SPVs receives two types of financial proceeds for the volume of electricity declared under the CfD auction bid (approx. 90%): (a) from selling all generate electricity on the market through a “route-to-market” PPA, and (b) from covering a negative balance, if any, by the government-owned Settlement Operator for the volume of electricity declared in the CfD auction bid.
- If the balance is positive, the excess is applied towards covering the negative balance in the subsequent months. If the balance remains positive at the end of the support period, it will have to be refunded to the Settlement Operator.
- Remaining production (approx. 10%), is sold via a combination of fixed price long term PPAs.



Fibre Optic Network Expansion (Poland)



- The deployment of a FTTH access network in areas where VHCNs are not available. The new network will pass 1.1 million homes with estimated investment cost of PLN 2.4bn.
- The scope includes the investments in all the passive network components as well as the cost of the deployment works, excluding active telecommunications equipment.
- EIB loan of PLN 600m, comprising ~20% of the senior debt (the largest take-and-hold lender).
- EIB's loan with a tenor of 7 years with bullet repayment, backed by an **InvestEU** guarantee.
- Target debt to equity ratio 70:30.
- Network on an open access / equal treatment basis to all interested retailer operators / Internet Service Providers (ISPs) in Poland under the same conditions (a wholesale model). ISPs will rent FTTH network services to provide retail ultra-high speed broadband services and collect revenues from end-users.
- The project will be dependent on the commercial success of the ISPs utilizing its fibre network and is therefore exposed to demand risk.
- 79% of the project will be located in cohesion regions.

Risk Assessment in RE Project Finance

- It is necessary for project promoters and off-takers to involve lenders early in the process of designing a PPA.
- Risks need to be allocated to the parties that can best manage them.
- The risks' allocation must be reflected in the clauses of the financing and PPA contracts as well as in the other underlying contracts associated with the transaction.
- Some key elements in the risk assessment of a PF transaction for RE generation:

✓ Strategy for mitigation of merchant price risk	✓ Price indexation	✓ Termination rights
✓ Off-taker credit standing	✓ % Production contracted	✓ Termination payments
✓ Pricing of electricity	✓ Delivery profile/capture rate	✓ Force majeure
✓ Interfaces	✓ Sub-contracts (EPC, O&M, major suppliers)	✓ Security package

Thank you!



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