

4th South East Europe Energy Dialogue

Investing in SEE Power sector



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SEE electricity sector – Challenges and opportunities

Major Challenges include:

- Ageing assets, low efficiency, high losses
- Critical under-investment
- Strong dependency of countries on one single resource (e.g. Hydro, lignite)
- Low tariffs
- Evolving regulatory environment and market

But also opportunities are there

- Despite the recent downturn, demand will grow
- Progress towards regional integration
- Huge capital needs – the Public Sector cannot deliver the estimated €15bn investment needs

Attracting private sector investment is important



Good lessons have been learned on the distribution side

Bulgaria, Romania, Moldova, FYROM, Montenegro, Albania have managed to successfully privatise distribution

However key challenges remain on the fulfilment of regulatory and investment commitment

- Tariff disputes
- Asset ownership and value disputes
- Unpaid legacy receivables
- Diminishing Political will



Little investment has been made in electricity generation

Very few new investments, Maritza East 1 and Maritza East 3 TPPs, Vlore TPP

Main issues:

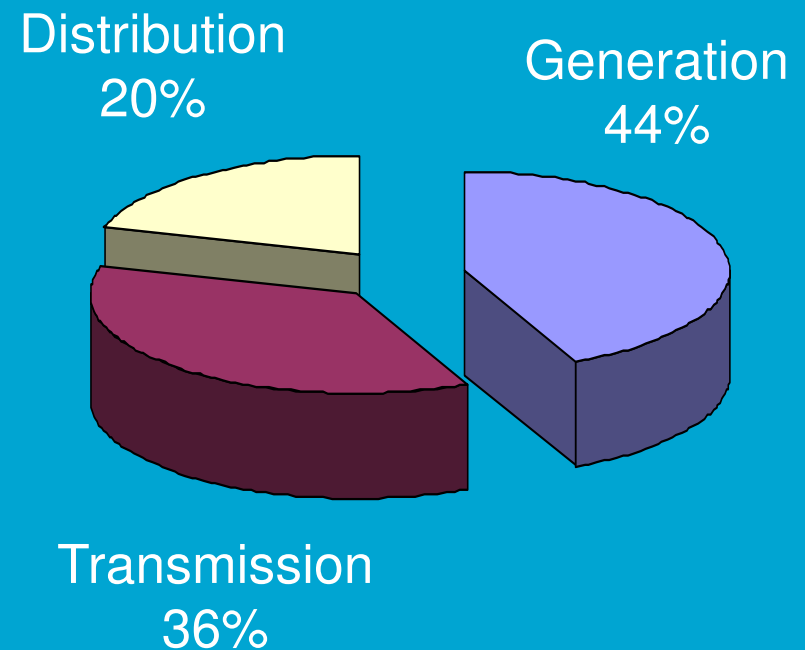
- Who must deliver? - Public or Private
- How to structure it? - PPA or Merchant, high off-take risk
- Can we build gas units? - No or single sourced gas supply
- CO2 cost
- Investing in RES? - a solution or just an EU demand

Regional market could address some of the issues



EBRD investing in the SEE electricity sector

- **The largest investor in the SEE power sector:**
 - over **EUR 1 billion** invested in SEE power sector to date
- **Extensive transaction experience**
 - 23 deals in 10 years (since 2000)
 - 38% private
 - 62% state owned



Supporting important projects for SEE

	Western Balkans	Bulgaria	Romania	Regional
Generation	<ul style="list-style-type: none"> - Albania Vlore TPP (€40mn) 	<ul style="list-style-type: none"> - St Nikola Wind (€70mn) - Suvorovo Wind (€42mn) - Maritza East 1 (€96mn) - Maritza East 2 (€22mn) - Maritza East 3 (€56mn) - Vez Svoghe Hydro (€34mn) 	<ul style="list-style-type: none"> - Turceni Rehab (€100mn) 	
Transmission	<ul style="list-style-type: none"> - Serbia EPS (€60mn) - Serbia EPS Reconstruction (€100mn) - BiH Power Reconstruction (€68mn) 	<ul style="list-style-type: none"> - NEK upgrade (€41mn) 	<ul style="list-style-type: none"> - Transelectrica (€13mn) - NPGC (€33mn) 	<ul style="list-style-type: none"> - Bulgaria/FYROM Interconnection (€41mn) - Romania/Hungary Interconnection (€12mn)
Distribution	<ul style="list-style-type: none"> - FYROM ESM Efficiency (€35mn) - BiH Distribution Reconstruction (€55mn) - Albania Rehab (€24mn) 	<ul style="list-style-type: none"> - NE Discos (€17mn) 	<ul style="list-style-type: none"> - E.ON Energie (€11mn) - E.ON Gaz Romania (€33mn) - Distrigaz Sud (€31mn) 	
Technical/ Policy Dialogue	<ul style="list-style-type: none"> - Monitoring of privatisation process of Albanian Disco 	<ul style="list-style-type: none"> - CCS transport and storage dialogue - Wind power strategic environmental assessment 	<ul style="list-style-type: none"> - Network analysis for wind power integration 	<ul style="list-style-type: none"> - Active participant in the ECT process - Creation of Coordinated Auction Office to trade transmission capacity



Note: Selected projects after 2000; figures shown are EBRD financing

Why EBRD

- Ensuring right priority to investment: best economic return to the country with right incentives for private sector players
- Regulatory expertise and experience to negotiate needed tariff increases/reform yet with eye to affordability and transparency
- Can provide and mobilise right mix of capital: debt and equity or equity-like capital tailored to the needs of the sector
- Trusted partner: past projects have demonstrated commitment and understanding of unique country/sector needs and challenges
- Prioritise environmental, energy efficiency and renewable investments

**Consistent strategy in towards liberalization,
strengthening regulatory frameworks, and
promoting investment**



Financing in SEE electricity sector is more difficult today

- It takes longer to complete
- Gearing is lower
- Margins are higher but base rates are at historic low levels
- Tighter covenants
- Plain structures

Big impact on tenors



Fewer Banks are able to lend

- Club of Banks rather than underwriters
- Sponsors have to widen their search for financings e.g. (ECAs, IFIs)
- For SEE multilaterals like EBRD have to take part of the burden



Why we remain optimistic

The fundamental are there:

- Demand for electricity have gone down last year but projects have not gone into default
- There is still big needs for replacement and new capacity in SEE
- Risks are well understood and could be structured

The need for well structured projects is greater



EBRD response

- EUR 10 bln (50%) capital increase to fund our investments in the region
- EUR 9 bln annual investment target from EUR 6 bln in 2008.
- Shifting focus south and east
- Focus towards an **energy efficient low carbon economy** supporting energy security and economic competitiveness



Thank you for your attention

