Public consultation on EIB’s Energy Lending Policy – Feedback from Abengoa

Dear Mr. Auppperle,

Many thanks for inviting Abengoa to provide feedback on your review on EIB’s energy lending policy.

As you know, Abengoa (MCE: ABG) is an international company that applies innovative technology solutions for sustainable development in the energy and environment sectors, generating electricity from the sun, producing biofuels, desalinating sea water and recycling industrial waste. Abengoa currently has 743 MW of installed solar capacity around the world and 910 MW under construction, and it is one of the few in the world that builds and operates both parabolic trough and tower CSP plants.

Over the last years, the EIB has financed a number of Abengoa projects in the area of renewable energy generation. The most recent example of this successful cooperation are Abengoa’s Khi Solar One and KaXu Solar One, which will be the first concentrating solar power (CSP) plants in South Africa. Both projects started construction in November 2012.

Please find below our feedback on specific questions in your Consultation Paper:

In reference to section 4.1 (general energy and economic context) and section 4.4 (security of supply) we consider that there does not need to be a trade-off between promoting a competitive and secure energy supply and one which is environmentally sustainable, provided that some framework conditions are met. Isolated electricity markets suffer from severe constraints with respect to their energy generation options. Especially in the European context, there are no markets with significant demand that have access to a balanced mix of competitive and sustainable energy supply options. This problem is compounded by the policy goal of meeting the so-called 2020 emission goals. So the EIB is right with its approach considering energy policies should reach further than 2020, but as important as this is, it is the fact that energy policies consider Europe as a whole, and do not create electrical islands. If we continue to plan for national or regional markets on their own, we believe it will be virtually impossible to meet their target of environmentally sustainable energy generation at competitive cost.

However, if the EIB supports the process of creating integrated energy markets, this goal may well become achievable in medium term. The EIB should support this process through the financing of renewable energy generation capacity in Europe and other geographies. In particular the EIB should support renewable energy facilities that are of strategic significance.
importance to the future energy mix, such as dispatchable renewable energy sources. In fact, this kind of energy sources, such as CSP, are the key to enhance a secure energy supply which is at the same time environmentally sustainable.

Equally important, the EIB should support the interconnection of national energy grids and the creation of integrated regional markets by providing financing to infrastructure projects that help remove transmission bottlenecks. By doing so, the EIB will also boost the security of supply of the affected markets.

The EIB should target its initiatives in areas that could contribute real value to the future energy mix in Europe and beyond. Specifically, the EIB should invest in dispatchable renewable energy generation capacity in geographies that are appropriate for such energy sources and were economic stimuli are needed. This type of investment would bring energy security in terms of security of supply, due to dispatchability, and energy independence, since Europe would diminish its dependence on fossil fuel imports from unstable countries and subject to price volatility. Secondly, the EIB should support the construction of transmission infrastructure to link those geographies with the demand centers.

The current economic crisis is having a negative impact in terms of investment and policies development in the energy sector, primarily in the renewable energy sector, as a result of short term initiatives. This endangers the appropriate development of the change towards a more sustainable energy system that has already been initiated and in which important investments have already been made with outstanding results: not only an improvement in the European energy system, but also the development of a high technology industry that fosters European economy. The EIB should now pay special attention to ease the development of renewable energy projects, so that the great effort put so far is not wasted.

In reference to section 4.2 (renewable energy), we fully agree with the notion that the EIB will need to continue playing a crucial role in enabling emerging renewable energy sources to become cost competitive with conventional sources of energy and already established sources of renewable energy over the coming years.

In the context of concentrating solar power (CSP), there is clear evidence that the industry has made great progress in bringing down its cost. A continuous effort in R&D has made it possible to count on new more efficient technologies, such as solar towers, that bring LCOE down. Also larger plants have brought down LCOE due to economies of scale. And, of course, the learning curve has played its role. However, there is still an enormous potential for cost reduction. For example, the European Association of Solar Thermal Industries (ESTELA) has just published a dedicated report on this subject which can be found on its internet page (www.estelasolar.eu).

It seems clear that over the coming years there will be a considerable level of investment in renewable energy sources, both in Europe as well as outside Europe. A great part of this investment will go into wind and PV projects which, for different reasons, appear to become cost competitive in some markets already. This development is most welcome; however, the massive roll-out of such intermittent sources of renewable energy will bring an additional and very high cost in managing the grid in the medium term, as the US Department of Energy has pointed out in their SunShot Vision Study (http://www1.eere.energy.gov/solar/pdfs/479277.pdf). The EIB should anticipate this issue and promote the development of an environmentally and economically sustainable energy mix.

Hence, the EIB should focus its investment in the renewable energy space on technologies that go beyond the mere generation of renewable energy and that contribute additional
benefits to the economies and the energy grid. Specifically, the EIB should support renewable energy sources that have the ability to produce electricity “on demand” when it is needed, and therefore contribute to security of supply, the manageability of the grid, as well as to the reduction in cost of the overall system. In the case of CSP, such dispatchability can be achieved through thermal storage or hybridization with other energy sources, e.g., natural gas. The same logic applies to industrial heating and cooling systems, which will play an increasingly important role in the future energy mix.

Last but not least, the EIB should continue to consider and increase the weight of the socio-economic contribution of renewable energy in the projects it chooses to finance. Specifically, EIB should increase the weight of factors such as domestic job creation, local industry development and the creation of local clusters of excellence in the development and construction of renewable energy structure.

In reference to section 4.7 (RDI), we believe that some of the key innovative energy technologies currently under development include projects that aim to further reduce the cost of concentrating solar power (CSP) through the use of heat transfer media that have the ability to reach higher temperatures, or the application of Brayton cycles. We also think that we will need to further push the technology frontier in the area of thermal heat storage and hybridizing solar power with other sources of energy. Investing in those areas will enable European industries to offer cost competitive dispatchable sources of renewable power in the short to medium term, enable the “Energiewende” in Europe and beyond, and secure jobs in one of the few technology clusters where Europe is currently in the lead on a global scale.

In order to support this development, the EIB needs to continue investing both in first-of-its-kind commercial plants, as well as in large pilot plants. It is especially important for the EIB to take an active role in the latter type of projects, since no other European institutions has the tools to enable domestic industry players to validate their cutting-edge technologies, and therefore to make sure that they be bankable with commercial lenders.

Regarding financial support from EIB, in addition to the regular financing typically offered by the institution, and in order to support the internationalization of European companies, the EIB should provide additional guarantees. Due to the current market constraint as a consequence of the decrease in credit rating of the European financial entities, the number of banks with the minimum credit rating typically required within international financing operations has decreased dramatically, turning this support from the EIB into a critical issue.

Once again, let me thank you for giving us the opportunity to contribute to your policy making process. If you wish, we would be more than happy to provide additional context or participate in specific meetings as mentioned during the public hearing in Brussels some weeks ago.

Best regards,

Santiago Seage
CEO
Abengoa Solar