European Investment Bank – Consultation
The European Investment Bank reviews its energy sector lending policy
Call for public views

Presentation of Dalkia
Dalkia, as part of Veolia Environnement, is a global leader in energy services. In 2011, Dalkia’s revenue amounted to €8.3 billion. Dalkia’s ambition is to be the reference company for energy savings at the territorial scale.
Dalkia’s three main activities are:
- District heating & cooling networks,
- Industrial utilities,
- Building energy services.
Through these three activities, Dalkia improves the energy efficiency of territories and reduces their environmental footprint, particularly the greenhouse gas emissions.

Dalkia’s activities are concentrated in Europe: France (54% of its global revenue), Continental Europe (19% of its global revenue), and Northern Europe (11% of its global revenue). North America, China and the Middle East represent approximately 10% of its global revenue (2011 data).

I. EIB should keep granting increasingly loans for Renewable Energy and Energy Efficiency.

The Energy Efficiency Directive (EED) recently confirmed the 2007 reduction target of 20% for the EU energy consumption in 2020. EU global consumption should not exceed 1.474 Mtoe for the primary energy and 1.078 Mtoe for the final energy. Each Member State should elaborate Energy Efficiency Roadmaps, to reach this objective with milestones in 2014, 2017 and 2020. In light of these schedules, EU Commission will propose, if necessary, binding targets.

EED will promote combined heat and power generation, mostly for district heating networks, public building refurbishment, energy audit implementation and the sponsoring of Energy Performance Contracting, the development of ESCO and adapted financing tools.

Reaching EU targets requires the reinforcement of current energy efficiency programmes, notably through major investments. Dalkia records this requirement in all its activities.
1. **The District Heating and Cooling Networks market estimation (including production, distribution and heat sales) is estimated at 70 billion € in Europe.**

District Heating Networks are well developed in a lot of cities in many European countries (Northern Europe, Central and Eastern Europe). They provide buildings with thermal utilities (heating and hot water) that represent the major part (70%) of their energy consumption. These networks represent a highly valuable asset that can contribute to local energy valorisation (biomass, geothermal, waste industrial heat), to cogeneration development and so to the reduction of cities greenhouse gas.

In some countries (Central and Eastern Europe) these networks appear as aging, vulnerable, under optimized and require urgent refurbishment and environmental compliance investment in order to remain competitive compared with other technical solution. Dalkia has demonstrated that such upgraded and optimised networks could account for highly competitive and sustainable solutions for cities, renewing the value of historical assets.

In countries where the networks are not developed, they arouse a new interest in urban developments, especially through their integration in “eco zones”. They contribute to the reduction of carbon footprint thanks to their ability to integrate Renewable Energy in the energy mix. Moreover, as they help decreasing the production price of thermal energy and its dependence upon the fossil fuel prices, they help cities to fight energy poverty.

Investment needs for refurbishing and expanding heating or cooling networks and production facilities are thus due to increase the forthcoming years, **District Heating Networks being part of EU Strategy to meet its energy goals.** Considering the long term of these projects, EIB can play a central role to secure them through long term financing.

2. **The European Energy Service Market for buildings and industrials can be estimated at more than 100 billion€ in EU.**

The enhancement of energy efficiency for buildings and industry requires important additional investment, estimated by International Energy Agency at a growing level from 25 billion€ /yr in 2015 to 50 billion€ /yr in 2020.

The energy service market tends to integrate more value added offers, such as Energy Performance Contracts, including the design, realization and often the financing of the investment aiming the delivery of guaranteed energy savings. Such offers should boost the realization of the investments and secure their return on equity (ROE) and the energy savings they are supposed to deliver. Their implementation require legislation adaptation, which is in process, evolution of industrial offer and customer’s practice, and long term financing, which is often the bottleneck.

In this evolution, Dalkia can bring a specific contribution, valuable to the European energy transition. It has proven its ability to commit and deliver long term energy performance through the implementation and operation of both technical solutions and action plans to monitor and support the change of end users behaviour.
For all these activities, investments during next decade will be decisive to meet the EU environmental and energy targets. **EIB should thus be a powerful accelerator of the Energy Road Map,** by its support to the implementation of these projects, provided the elements described below.

II. **Barriers to investments in those sectors call for the reinforcement of EIB loans and dedicated financial instruments.**

Investment in renewable heat and cooling projects as well as energy efficiency investment is currently limited by several factors listed below:

1. **Uncertainty on long term competitiveness of renewable energy asset compared to traditional heating and cooling assets**

Initial investment cost is usually higher than investment in traditional fossil fuel technology. This is the case for biomass heat and electricity asset and even more true for geothermal heat assets that are very capital intensive. The long term competitiveness of the renewable asset depends on its own fuel cost but also on external factors like the price and constraints on CO2 and the price of fossil fuels (emergence of shale gas ...).

Investment in renewable is especially more difficult today with the decline in fossil energy prices due to the economic crisis and the low CO2 prices.

Energy efficiency measures share the same uncertainty on its competitiveness.

2. **Emerging Renewable energy market induces exaggerated risk assessment**

Regarding biomass assets, the market for biomass procurement structures itself progressively and is still not well known by financial investors, which implies that they have a tendency to exaggerate risk assessment.

This barrier could be reduced by continued biomass market transparency, especially by building public biomass prices index and using them in feed tariff for electricity and formula for price evolution of heat.

Regarding geothermal asset, risk on the performance of geothermal drilling is high and can be a barrier for financing. **Public Insurance mechanism** is a powerful mechanism to support investment.

3. **Small size of the projects with fixed transaction costs**

The potential for heat and cooling investment mostly lies with local energy production projects. Most of these projects are below 50 M€ and the average size is around 10 M€. Energy efficiency projects are even smaller projects on average.
Different local constraints as well as different timing (decision process ...) make it extremely difficult to bundle projects.

EIB should if possible intervene through framework tailored to each promoter’s specific way of developing projects. These framework should give private actors a degree of predictability on EIB intervention and should aim at mutualizing due diligence on small projects.

4. **The size of the balance sheet of the energy service operators. There is a need for financial contribution from other players than energy service operators.**

Currently, energy service operators are the only ones who overcome barriers 1) to 3) mentioned above. Their ability to finance the project is however limited by the size of their balance sheet. To continue developing these projects, there is a need for **players other than energy service operators able to absorb the project risk.** This enable to energy service operators to focus their capacities and financial resources on the development of new projects. **Those players should notably invest equity in the projects and carry them on their balance sheet.**

**Infrastructure funds** with the ability to take the infrastructure risk related to the competitiveness of the asset would be the useful financial instrument for this policy.

One of the main challenge is that those **equity investors should be able to invest in medium (below 50 M€) as well as small projects (below 10 M€) to reach the potential for renewable heat and cooling in Europe.**

From this perspective, the European Energy Efficiency Fund (EEEF) is an important policy instrument for Renewable and Energy Efficiency in Europe. Compared to the potential project pipeline, its action could be more powerful with broader investment criteria (possibility to refinance existing projects, financing of projects in the industrial sector, higher maximum power capacity limit).

**Other similar funds should be created to increase the execution capacity and address the potential for equity investment in renewable heat and cooling as well as energy efficiency (high efficiency cogeneration, district heating networks and building energy services).**

5. **The ability of the banks to finance on the long term. The pay back is significantly long and those projects are capital intensive.**

Given the current liquidity shortage for commercial banks, intermediate financing by EIB is currently very important for the raising of long term project debt in renewable, as we experience with “France Biomasse I – Dalkia”, an operation, under review by EIB, dedicated to the financing of new biomass cogenerations in France.

In order to make intermediate lending more powerful, the EIB could:

- **have a faster project assessment** given that project risk is supported by commercial banks.
- give, during public procurement process, some positive signal about the eligibility of the project in order to help promoters raising the financing with commercial banks. This could be achieved for instance through framework agreement between EIB and sponsors, that would give commercial banks comfort that the project should be eligible.

- Direct EIB financing would be also extremely valuable: it should require overcoming the difficulty of EIB to finance relatively small sized projects.

6. **Stability of regulatory framework and uncertainty on the availability of public support schemes**

Stability of regulatory and incentive schemes is decisive for investment in renewables and energy efficiency. This is especially the case for energy efficiency projects where predictability of financing solution would increase the number of projects. And the number of projects accounts for the set-up of dedicated financing tools.

In energy efficiency projects, the complexity of decision making (variety of actors) adds a degree of complexity that strengthens the need for easy and predictable financing schemes.

**Framework agreement between EIB and promoters that would clarify for private actors (promoters, commercial banks...) the eligibility of potential projects would be helpful for investment decisions.**