

## EFSI Operation Scoreboard<sup>1</sup>

PROJECT PRESENTATION	
<b>Project name</b>	KAUNAS HEATING CAPEX PROGRAMME
<b>Promoter and financial intermediary</b>	KAUNO ENERGIJA AB
<b>Country of implementation</b>	Lithuania
<b>Summary project description</b>	<p>The project is a 5-year investment programme from 2019 to 2023; 368.22 km of old lines will be retrofitted and 62.81 km of new lines will be constructed, two biomass boilers of capacity 6 MWth (total) will be installed together with three gas-fired boilers of a total capacity 0.64 MWth. The programme includes also an acquisition of one mobile biofuel boiler (1.5 MWth) and limited investment in modernisation of existing biomass and gas boilers and plants. All project schemes are eligible for financing under the new Energy Lending Policy (ELP) besides the modernisation of gas boilers (7% of CAPEX) which are eligible under the criteria at the appraisal stage (the project was under appraisal before November 2019).</p> <p>According to the ELP, such investments (in gas-fired boilers supporting the DH ("district heating") network) are still eligible for financing if the project was under appraisal before the approval of ELP. It has to be emphasized that the modernisation of these gas assets is economically justified and extends their economic life only for a limited period (up to 10 years). Moreover, 90% of heat distributed in Kaunas is generated in biomass boilers which means that Kaunas DH system already reached the nationwide goal for decarbonisation of district heating sector until 2030 put down in the National Energy and Climate Plan.</p> <p>The Promoter owns over 406 km of up to 900 mm diameter DH pipelines; Petrasiumai power plant, 4 boiler-houses in Kaunas integrated network, 7 district boiler-houses in Kaunas district, 1 boiler-house in Jurbarkas city, 13 boiler-houses of isolated networks and 28 local gas burning boiler-houses (27 burned with gas and 1 with wooden pellets) in Kaunas city, and also 8 local water heating boiler-houses in Sargūnai neighbourhood. The total installed generation capacity is 607 MWth out of which around 80% is based on biomass.</p>

<sup>1</sup> This Scoreboard of indicators reflects the information presented to the EFSI Investment Committee (IC) for its decision on the use of the EU guarantee for this operation. Therefore, the document does not take into account possible developments that could have occurred after this decision.

Parts of this document that fall under the exceptions for disclosure defined by the EIB Group Transparency Policy, notably under articles 5.5 (protection of commercial interests) and 5.6 (protection of the Bank's internal decision-making process), have been replaced by the symbol [...].

## PROJECT PILLAR ASSESSMENT

### Pillar 1

Contribution to EU policy		High
<b>Cross-cutting objectives</b>		
EIB Cohesion Priority Regions / Economic and Social Cohesion		100.00%
Climate Action		93.00%
<b>EFSI</b>		
Contribution to EFSI		100.00%
EFSI: Development of the energy sector in accordance with the Energy Union priorities		100.00%
Expansion of the use or supply of renewable energy		7.00%
Energy efficiency and energy savings (with a focus on reducing demand through demand side management and the refurbishment of buildings)		86.00%
Other development of the energy sector in accordance with the Energy Union priorities		7.00%

### Pillar 2

Quality and soundness of the project		Excellent
1. Growth		[...]
2. Promoter capabilities		[...]
3. Sustainability		[...]
4. Employment		[...]

This pillar evaluates the quality and soundness of the operation. This pillar is composed of up to four indicators, as relevant, among which:

- (i) "Growth" i.e. for example and where relevant the economic rate of return ('ERR'), which considers the project's socioeconomic costs and benefits, including its spillover effects;
- (ii) "Promoter capabilities" i.e. the capacity of the promoter/intermediary to implement the project and create the expected impact at the [final] beneficiary level;
- (iii) "Sustainability" i.e. environmental and social sustainability<sup>2</sup>;
- (iv) "Employment" i.e. the project's direct employment effect;
- (v) "Increasing access to finance and improving financing conditions including for final beneficiaries".

<sup>2</sup> For additional information on the EIB's assessment of the project's environmental and social aspects, please refer to the project's Environmental and Social Data Sheet (ESDS) published on the EIB website.

### **Pillar 3**

<b>EIB Technical and financial contribution to the project</b>	<b>Significant</b>
1. Financial contribution	[...]
2. Financial facilitation	[...]
3. Advice	[...]

*This pillar measures the EIB's particular contribution to the project and its financing scheme in the form of financial and non-financial benefits which go beyond what commercial players would normally be able to offer. This dimension of value added is assessed through up to three indicators:*

*(i) "Financial Contribution" i.e. improving the counterpart's funding terms compared to market sources of finance (interest rate reduction and/or longer lending tenor);*

*(ii) "Financial Facilitation" i.e. helping to attract private financiers (for example through positive signaling effects), promoting synergies in co-financing with other public sources of funds including National Promotional Banks or EU financial instruments;*

*(iii) "Technical Contribution and Advice" i.e. providing advice with a view to optimizing the financing package (financial structuring), or technical advisory services in the form of expert input / knowledge transfer - provided in-house by the EIB or in the form of assignments to external consultants - to facilitate the preparation or implementation of a project.*

## **Pillar 4 - Complementary indicators**

### ***Additionality***

The EIB loan will support the Promoter's activity in the district heating sector of Kaunas city and Kaunas district municipalities, as well as the other municipalities. It responds to the EU and EFSI energy policy objectives as regards energy efficiency and energy savings, by improving the environmental impact of district heating in Lithuania. This operation will therefore make an important contribution to the Climate Change mitigation policies. Additionally, the Project will take place in a cohesion region.

The loan will address an underserved market presenting a number of features justifying EIB's intervention under EFSI. Heating utilities operate under a regulatory framework that specifically defines the rules for calculation of the tariffs paid by end-users and related tariffs cannot be immediately adjusted to cover for financial costs with investments for modernization. Until now, the regulatory framework has not allowed the local market players to accumulate sufficient cash reserves, as heat had to remain affordable to the end-users thus limiting their capacity to invest in spite of the huge investment needs in the sector.

In order to address this investment gap, utilities are now turning to more market-oriented financing solutions based on debt leverage. Offers from the commercial banks, however, remain constrained by specific risks guidelines, and are not tailored to the needs of energy utilities. In particular, the tenors offered are not long enough to ensure financial sustainability and do not account for the required long payback time, while the security demanded by those banks render the current available solutions limited in scope and not convenient.

Given the economic impact of COVID-19 on the availability of credit to counterparts of moderate size with no established access to capital markets such as Kauno Energija, the financing provided by the EIB would ensure that potential liquidity crisis does not put into question the solvency and creditworthiness of Kauno Energija. It will also send a strong signalling effect to the commercial banks operating in Lithuania and play a countercyclical role in the current volatile market conditions.

The EIB, thanks to the support of EFSI, would be able to address this sub-optimal investment situation. Additionally, the EIB loan will be offered as long-term loan and repayment will be mostly based on the revenues generated by the tariffs applied by the utility. Through the very long tenor offered, the repayment profile of the debt will match the available cash-flows, allowing the acceleration of the investment programme, which otherwise would have been implemented at a much slower pace. This means that the EIB loan will assume implicitly market risk due to the uncertainty in the evolution of consumption and of the tariffs. The long-term and unsecured features of the EIB loan may also lead to a potential subordinated position of the EIB towards other external lenders.

EIB's involvement in supporting the Promoter's funding structure is expected to play a catalytic role, increasing the commercial lenders' confidence in these entities and confirming their own engagement in their financing. The EIB loan will also provide a

signalling effect in the market and potentially pave the way for some of the respective borrowers to access capital markets for additional funding.

This operation is expected to fall under the EIB's Special Activity risk category taking into account the unsecured structure envisaged and the moderate financial strength of the Promoter, a first-time counterpart to the EIB.

## Set of indicators related to the macroeconomic environment

### Lithuania - Economic environment

#### Economic Performance

	LT 2018	EU 2018	US 2018	LT 2001-2007
GDP per capita (EUR, PPS)	24,800.94	30,935.11	43,569.11	16,916.75
GDP growth (%)	3.45	1.97	2.86	8.08
Potential GDP growth (%)	2.83	1.60	2.24	6.09
Output gap (% of potential GDP)	3.62	0.62	0.74	1.38
Unemployment Rate (%)	5.80	6.60	3.90	9.71
Unemployment Rate (%) - Y/Y change (% points)	-0.90	-0.60	-0.20	-1.81
Bank-interest rates to non-financial corporations (%)	3.06	1.26	--	4.59
Bank-interest rates to non-financial corporations (%) - Y/Y change (% points)	0.99	-0.06	--	0.75
Investment rate (GFCF as % of GDP) - Total	19.27	20.54	20.84	23.36
Investment rate (GFCF as % of GDP) - Public	3.21	2.86	3.31	3.60
Investment rate (GFCF as % of GDP) - Private	16.06	17.68	17.53	19.76

#### Energy

	2014	2015	2016	2017	EU (latest available)
Energy consumption from renewables (%)	23.59	25.75	25.61	25.84	17.53
Energy consumption from renewables - distance to EU 2020 target (%)	-0.59	-2.75	-2.61	-2.84	2.47
Energy dependence (%)	77.90	--	--	--	53.50
Primary energy consumption (consumption in 2005 =100)	71.30	72.70	75.10	--	90.00
Energy intensity of the Economy (kg of oil equivalent per 1 000 EUR)	--	--	--	--	141.83
Primary energy consumption (Million Tonnes of Oil Equivalent)	5.70	5.80	6.00	--	1,542.70
Primary energy consumption (Million Tonnes of Oil Equivalent) - distance to EU 2020 target	-0.79	-0.69	-0.49	--	59.70

#### General Sector Indicators

	2014	2015	2016	2017	EU (latest available)
Value added in Electricity, gas, steam and air conditioning supply (% of total VA)	2.37	1.77	2.02	1.86	1.82
Employment in Electricity, gas, steam and air conditioning supply (% of total employment)	0.78	0.79	0.85	1.06	0.54

- Country average for "GDP per capita (EUR, PPS)" is calculated in real terms

- EU value for "Bank-interest rates to non-financial cooperations" corresponds to Euro Area average; Country average is the simple average between 2003 and 2007

- The EU value is displayed as the value in the year that corresponds to the latest value of the indicator in a particular country

### Other indicators<sup>3</sup>

Key project characteristics	Expected value at PCR
Start of works	01.01.2019
End of works	31.12.2023
Project investment cost [MEUR]	111.58 MEUR
EIB/EFSI eligible investment mobilised [MEUR]	77.58 MEUR
External EFSI multiplier	1.41
External EIB (non-EFSI) multiplier	
Amount of private financing [MEUR]	22.58 MEUR
Quick start (% of expenditure during 2015-2018) [%]	
Co-financing with national promotional banks [MEUR]	0.00 MEUR
Co-financing with structural funds (ESIF) [MEUR]	34.00 MEUR
Co-financing with other EU instruments (i.e. Horizon 2020, Connecting Europe Facility, etc) [MEUR]	
Energy efficiencies realised [MWh/a]	12,600.00 MWh/a
Climate Action indicator	7.00% Mitigation - Renewable Energy (transversal) / 86.00% Mitigation - Energy Efficiency (transversal)
Employment during construction - temporary jobs [person years]	1,420 person years
Employment during operation - new permanent jobs [FTE]	0 FTE

<sup>3</sup> For additional information on the EIB's assessment of the project's environmental and social aspects, please refer to the project's Environmental and Social Data Sheet (ESDS) published on the EIB website. The abbreviation PCR stands for Project Completion Report. If applicable, a difference between the amount of Project investment costs and EIB/EFSI eligible investment mobilized might derive from the fluctuation of the underlying exchange rate.