



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

<b>PROJECT PRESENTATION</b>	
<b><u>Project name</u></b>	BUDAPEST DISTRICT HEATING STRATEGIC INVESTMENTS
<b><u>Promoter or financial intermediary</u></b>	BUDAPESTI TAVHOSZOLGALTATO ZRT (FŐTÁV Zrt.)
<b><u>Country of implementation</u></b>	Hungary
<b><u>Summary project description</u></b>	<p>The Programme concerns the investment programme of the Promoter for the reconstruction, modernisation, extension and strategic development of the district heating system in Budapest for 2018 and 2019.</p> <p>The Promoter is FŐTÁV Zrt., the municipality-owned sole district heating supplier company of Budapest.</p> <p>The main purpose of the investments is to optimise and further develop the heat supply services to meet efficiently the existing and future heating demand in Budapest. The Programme will reduce emissions of greenhouse gases and other pollutants by replacing individual heat sources in residential and public buildings with centralised heat generation, by adding new renewable heat generation, by modernising existing heat generation assets and by increasing the overall efficiency of the district heating system. The substitution of individual gas coal, or oil fired ovens and boilers and subsequent reduction of air pollutants is very important for Budapest in view of its long-lasting and significant problems with the air quality, especially in the densely populated central areas of the city. The Programme consists of the following major types of investments:</p> <ul style="list-style-type: none"> <li>i) Reconstruction and modernisation of the existing district heating system;</li> <li>ii) Strategic system developments <ul style="list-style-type: none"> <li>- Construction of two new biomass heat only generation plants;</li> <li>- Connecting new customers in areas where district heating is currently not available;</li> <li>- Construction of strategic transmission pipelines to connect individual “islands” of the existing fragmented district heating network allowing optimisation of use of heat sources, more efficient network operation and making available the district heating service in new areas of the city, like in the central districts;</li> <li>- Substation upgrades to allow remote control operation;</li> </ul> </li> <li>iii) IT modernisation and developments, including cyber security improvements;</li> <li>iv) Other investments related to the buildings, equipment, tools and instruments of the Promoter including building security and energy efficiency improvements.</li> </ul>

<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 the 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>	
Climate Action	100.00%
<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	16.00%
Development and modernization of energy infrastructure (in particular interconnections, smart grids at distribution level, energy storage and synchronisation of networks)	84.00%

### **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 four indicators which include:*

- (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.*

### **Pillar 3**

EIB Technical and financial contribution to the project	Moderate
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 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.*

<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 4 – Complementary indicators**

### ***Additionality***

This project relating to the maintenance, development and overall operational optimisation of the Budapest district heating networks contributes to the energy general objective of EFSI, both for energy efficiency and for the development of renewable energy, with the foreseen investment in new renewable biomass-fired heating plants. The project therefore contributes fully to the Climate Action target of EFSI. The project also takes place in a Cohesion Member State.

The operation addresses a suboptimal investment situation as the promoter traditionally relies on public funding through grants for its investment programmes. However, modernization and rehabilitation related investments are not eligible at all or eligible only with limited scope for grant financing despite the strong externalities addressed. Therefore, the district heating operators are struggling to find available funds to support vital investments to keep running and operate efficiently their networks. In that context, the promoter can only rely on short term financing which is not adequate with the economic life of the programmes. Long-term financing is necessary to avoid putting disproportional burden to its repayment capacity, customer tariffs or subsidy requirements.

The EIB long term financing of this amount could not have been offered to the promoter absent of the EFSI support, due to the underlying credit risks. The EIB loan will have a significant catalytic effect as it allows closing the financing necessary to get grant co-financing from the European Structural and Investment Funds. In the longer term, the EIB's participation will strengthen the Borrower's overall market credibility and send a strong signalling effect to other market participants, enhancing the project's viability and attracting commercial bank financing for the Borrower.

## Set of indicators related to the macroeconomic environment

Hungary - Economic environment				
Economic Performance				
	HU 2016	EU 2016	US 2016	HU 2001-2007
GDP per capita (EUR, PPS)	20,384	29,440	42,615	21,221
GDP growth (%)	2.0	1.9	1.6	3.7
Potential GDP growth (%)	1.9	1.3	2.1	3.2
Output gap (% of potential GDP)	0.21	-0.75	-0.03	1.9
Unemployment Rate (%)	4.3	8.2	4.7	6.6
Unemployment Rate (%) - Y/Y change (% points)	-1.9	-0.8	-0.3	0.3
Bank-interest rates to non-financial corporations (%)	1.2	1.4	1.8	9.8
Bank-interest rates to non-financial corporations (%) - Y/Y change (% points)	-1.7	-0.21	-1.4	-1.3
Investment rate (GFCF as % of GDP) - Total	17.8	19.7	19.6	24.1
Investment rate (GFCF as % of GDP) - Public	3.1	2.7	3.4	4.3
Investment rate (GFCF as % of GDP) - Private	14.7	17.0	16.2	19.7

Energy					
	2013	2014	2015	2016	EU (latest available)
Energy consumption from renewables (%)	16.2	14.6	14.5	--	16.7
Energy consumption from renewables - distance to EU 2020 target (%)	-3.2	-1.6	-1.5	--	3.3
Energy dependence (%)	52.1	61.7	--	--	53.5
Primary energy consumption (consumption in 2005 =100)	83.2	82.6	87.5	--	89.3
Energy intensity of the Economy (kg of oil equivalent per 1 000 EUR)	255.9	--	--	--	141.7
Primary energy consumption (Million Tonnes of Oil Equivalent)	21.2	21.0	22.3	--	1,530
Primary energy consumption (Million Tonnes of Oil Equivalent) - distance to EU 2020 target	-2.9	-3.1	-1.8	--	46.6

General Sector Indicators					
	2013	2014	2015	2016	EU (latest available)
Value added in Electricity, gas, steam and air conditioning supply (% of total)	--	--	--	--	2.0
Employment in Electricity, gas, steam and air conditioning supply (% of total)	--	--	--	--	0.6

- Country average for "GDP per capita (EUR, PPS)" is calculated in real terms
- EU value for "Bank-interest rates to non-financial corporations" 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 at PCR
Start of works	01.01.2018
End of works	31.12.2019
Project investment cost	124.01 MEUR
EIB/EFSI eligible investment mobilised	95.30 MEUR
External EFSI multiplier	1.32
External EIB (non-EFSI) multiplier	0.00
Amount of private financing	0.00 MEUR
Quick start (% of expenditure during 2015-2018)	54.00 %
Co-financing with national promotional banks	0.00 MEUR
Co-financing with structural funds (ESIF)	28.65 MEUR
Co-financing with other EU instruments (i.e. Horizon 2020, Connecting Europe Facility, etc)	
Energy efficiencies realised	42,500.00 MWh/a
Climate Action indicator	16.00% Mitigation - Renewable Energy (transversal) / 84.00% Mitigation - Energy Efficiency (transversal)
Employment during construction - temporary jobs	1,250 person years
Employment during operation - new permanent jobs	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.