

Power sharing: European interconnectors heat up

Olivia Gagan

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Since the start of the year, news relating to schemes to share and sell electricity between European countries via power cables seems to have been coming thick and fast, after a sluggish 2016.

In the past month alone, *IJGlobal* has reported that the sponsors of a 1.4GW [power interconnector between Germany and the UK are on the search for financial advisers](#), that a £1.75 billion (\$2.1 billion) [UK-Norway interconnector project](#) has been awarded €10 million (\$10.5 million) in funding from the European Union, that [Balfour Beatty and Italy's Prysmian have won a €219 million contract for the €400 million, 1GW Eleclink](#) interconnector project between the UK and France, and [French energy regulator CRE has approved the €740 million, 1GW IFA 2](#) interconnector project to share power between the UK and France.

Smoothing out Europe's power gaps

As a technology, interconnectors are not new: there are already a number of power cables enabling European countries to flow power between each other. But their purpose is becoming increasingly important in Europe, where less predictable electricity derived from renewable energy is starting to replace the highly predictable baseload power which was provided by coal plants.

This may help explain the recent spike in development and financing. There is also political momentum: interconnectors are strongly supported by the European Union. The EU has plans to create a 'European Supergrid', connecting countries and in theory lowering costs and intermittency issues in the countries which are interconnected.

When it comes to financing these projects, the costs are high. The sheer length, depth, cabling and construction costs make for multi-billion euro projects, with just the projects listed above calling for at least €3.2 billion in capital expenditure. Sponsors need to be financially strong and able; Groupe Eurotunnel is understood to be on the hunt for a new partner to share equity responsibilities with, after previous partner STAR Capital ran into difficulties sustaining the cost of developing Eleclink.

Finding the funds

The good news for sponsors is that it seems both the political and commercial will is there to get these projects paid for. Many have already benefitted from EU funding under schemes designed to promote the pan-European supergrid concept. And perhaps more importantly, as of early 2017, commercial lenders want to be involved. "Banks in Europe have a lot to lend and not enough demand for credit at the moment," the loan syndication chief at one major French bank told *IJGlobal* last week. "We've not seen a massive number of new transactions coming to market this year, so these projects are definitely of interest."

But the source, alongside other lenders *IJGlobal* has spoken to in the past two months, was quick to mention that "we won't accept merchant risk." These projects need to have solid contracts in place guaranteeing their need ahead of time, preferably with contracts in place from governments or major grid operators. "We're not willing to bet on the differentials [between prices in one country and another]. These projects would need to be financed on a capacity basis," they said.

This is already happening. French national grid operator RTE and its Italian counterpart Terna are in advanced financing negotiations for the €1 billion, 1GW Savoie-Piémont power interconnector between France and Italy, with financial close slated for 2017. A raft of French banks are understood to be attached to the financing of the project.

Will cables be affected by politics?

Many of the projects connect Britain to other European countries. And, of course, the ever-present 'what will Brexit do?' question circles around projects with a UK element. To date, the consensus seems to be that while it may slow down development as stakeholders ask more questions, in the long run, it is unlikely to stem projects completely. There is an argument that the UK needs these cables more than its European neighbours: one project that is already up and running, the 1GW BritNed link between the UK and the Netherlands, came online in 2011 and since then the flow of power has largely been from the Netherlands to the UK.

The UK faces a major capacity shortfall in the coming years as its ageing coal plants are decommissioned. While nuclear is expected to replace the major baseload lost from coal, it seems that interconnectors, with their gigawatt-scale capacity and EU-backed support, may prove to be just as important.

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