

Europe... it's electrifying / terrifying

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Does the electrification of Europe give you sleepless nights? Do you fret over the pipeline of deals and the ability to finance it? Do you twitch when people mention supply chain issues? Then let today's Friday Editorial soothe your fevered brow... but there's no Lily The Pink out there.

Having spent a lot of time recently analysing [the regional markets](#) (open access) for infrastructure and project finance, it leaves one thinking something along the lines of "jings, crivens, help ma boab" ... there's an awful lot to be done.

It's going to take a lot of equity... good job there are so many infra funds out there with dry powder. While H1 was the slowest for fundraising in a half-year period since 2020 (according to our [recent report](#)) with \$57.85 billion raised, there's a lot of cash sloshing around looking for a home.

It's going to take a lot of debt... which – on the project finance side – saw \$331.4 billion of financial closes over the course of H1 2024 (according to another [recent report](#)). International greenfield project finance dipped in the first half, and if it's to cope with the coming demand, pricing is going to have to edge up to bring more lenders to the table.

It's going to take an unblocking of supply chains... that's an ever-present bugbear and it doesn't look to be getting any better. But at so many levels, this is a major stumbling block for the roll-out of power projects.

Taking a look at the IJGlobal database (with support from our excellent data team), the stats for European power and renewable energy project finance are quite... imposing.

View from The Street – Europe

The lending community is bullish on its ability to lend – and lend big where required – against the European pipeline of PF power and renewables projects. In fact, most welcome an influx of transactions in anticipation of margins creeping up.

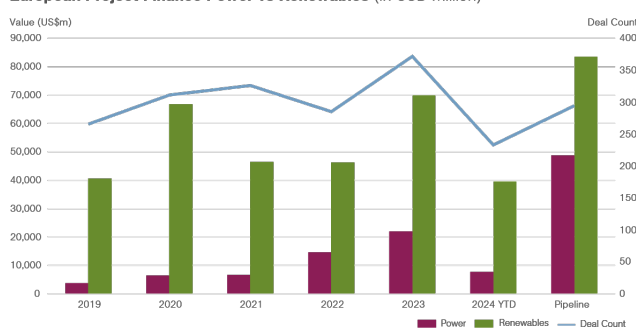
As one veteran European infra banker bemoans: "We would like to do a lot more offshore wind, but the margins have been below our minimum target, which has been very frustrating."

Meanwhile, a lender from the institutional investor side has a similar view: "From our perspective it should mean we're back in the game for renewables... especially offshore wind.

"We've been a marginal lender due to the wall of cash from banks... especially second-tier Asian bank capital. But we have high and increasing appetite for project debt – albeit projects need to be investment grade – so bring it on!"

Another European lender who has deployed more to renewables (power historically) than he'd care to admit to, says: "I think that there's plenty of appetite and capacity for the right deals with a reasonably strong offtake story. More

European Project Finance Power vs Renewables (in USD million)



merchant equals less appetite.”

This is rounded off with an infra lender saying: “There will be enough debt – and equity. Investors and financial institutions want to brag about their journey towards Net Zero.

“Net Zero is not only renewables, but it will involve all industries – more investments. Much will depend also on each government/multilateral support and available incentives. I feel for the poor taxpayers who will have their bills and taxes beefed up to pay for this.”

And with big deals come the requirement for lenders and advisers to have the teams in place to drive them to close.

However, as one banker chum says: “We have more people than most, so would be the last to struggle. But honestly, I think smaller teams will get resources from other parts of their respective bank/institution.”

From the advisory perspective, one infra guru says: “Workload has indeed dipped and the wall of work has moved to the right again but the narrative is always so much work and not enough staff.”

The adviser – this one of a technical persuasion – complained that “significant capital expenditures are being deferred as governments look for savings” warning darkly that as “Net Zero targets are going to be missed” European social infrastructure will be underinvested and “there will be a moaning on the quality of services”.

Another adviser – this one of the financial variety – says: “The finance world is coming to realise that the low hanging fruit has been picked and you now actually have to take risks in financing renewables.

“For example, to finance batteries, you’ve got to take a view on trading strategies of the sponsor given the absence – typically – of any long-term capacity market contract.”

So, the bottom line is... the money’s there for it... however...

Not without its challenges

Financing the pipeline of European power and renewable energy project finance transactions is not without its challenges, but it’s doable.

The real bottleneck – and this impacts the market on a global level – is the lack of vessels for offshore wind and skilled labour... predominantly electrical engineers. That’s a bit of an old story, but one that remains a long way from being resolved.

On an even more grassroots level, grid connection issues create major financing hurdles with this risk increasingly being passed to the developer. Again, we’ve heard that all before... and we will hear it again!

And then you have deep-water offshore wind farms (OWF) and floating offshore wind (FLOW) which – as one infra financial adviser points out – “are all risky and largely untested”.

The adviser adds: “Governments’ ability and willingness to tolerate huge subsidies is being challenged. Ultimately all that financing and equity returns need to be funded via bills.”

And then there’s the old bugbear – supply chain. Everyone’s been bumping their gums relentlessly about this for an age. If you want an offshore wind service ship, the waiting list is 24 months right now.

One infra source says: “For a solar farm, you have an 18-24 month lead time for transformers and that’s only if you’re a credit worthy utility or a scale sponsor.

“So, how do you order long-lead items without financing in place as financiers want certainty on costs. Chicken and egg. The only solution is more equity... which drives up WACC.”

Add inflationary pressures all along the supply chain and the strains are evident.

European projects pipeline

As you can see from the chart, deal flow in the project finance of power and renewables across Europe since the start of 2019 to 2024 (year to date) has been a bit lumpy.

The market was scaling up nicely to 2020 when \$66.8 billion of project finance renewable energy transactions made it to financial close, building on a strong year of \$40.7 billion in 2019. The impact of Covid-19 made itself felt in 2021 and 2022 which achieved \$46.5 billion and \$46.3 billion of PF renewables, respectively.

Momentum was regained in 2023 when IJ recorded financial closes on renewable energy project finance transactions at \$69.9 billion. And so far this year, our data record \$39.5 billion.

And that's just the renewables. Traditional power transactions have been scaling up nicely to \$22 billion in 2023.

Looking at the pipeline for the coming years (and this is just the near-term closes), traditional power is impressive with \$48.8 billion on the horizon, and renewables weighing in at \$83.6 billion. Bear in mind that the projects we have in our database – but that we have yet to associate a value to – are not included in this table.

Across Europe there are a slew of small solar, wind and energy storage projects making their way through procurement. And then there are the hydrogen deals that are as plentiful as they are bemusing.

One to watch in Poland is [Baltica 3 Offshore Wind Farm](#) that is being delivered by PGE and Ørsted. The 1GW fixed-foundation wind farm is the country's first publicly procured, commercial scale OWF with construction costs estimated at €3.3 billion (\$3.25bn)... which is only going to head north. The EIB has approved a €700 million loan to support this project.

Then you have Denmark's 1.1GW [Thor Offshore Wind Farm](#) that is being delivered by RWE and already has the EIB lined up to provide co-financing of €1.2 billion. It will be equipped with 72x Siemens Gamesa turbines of 15MW each, generating enough power for more than 1 million households.

And that's just 2 of the major offshore wind projects that are working through the system.

On the more traditional power front, there are fewer transactions in the offing, but those that are in play are big ticket. Primary among these is the ever-so-challenging [Sizewell C](#) nuclear power plant in the UK.

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