

# Financing and Implementing Renewable Energy Projects in Bulgaria.

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## Introduction.

In recent years there have been many positive developments in the Bulgarian energy business. There's a lot of interest now from foreign investors, and there are also many Bulgarian companies taking positive steps to develop modern energy projects.

But there is still a huge amount to be done. Estimates includes sums of at least €500m needed as investment in energy efficiency for homes, and a further €2,000m for renewable energy projects of all types. As fossil fuel costs continue to rise renewable energy is becoming even more attractive, and big investment is needed in that market as well as replacement plant for conventional generation. But there is still limited money available in Bulgaria, and inward investment from foreign investors is essential for many of these projects. So, how do we attract those investors, and how do we make sure that both the Bulgarian developer and the foreign investor get a good deal?

There are many possible projects, but despite the increased activity in this market, only a small proportion of them are being built so far. So we should ask Why? Why are so many worthwhile ideas not yet being implemented. Often it's because the local developers don't really understand the needs of investors, and don't present their projects to make them attractive. But there are many good project ideas in Bulgaria which can be financed and implemented, if we structure them correctly.

There are some key factors essential for success. Each project needs;

- A realistic commercial and technical feasibility study,
- A commercial structure that is attractive to investors,
- Find the right partners to work with,
- Make the project beneficial to all involved – win/win.

## Energy Efficiency and Renewable Energy Advantages

All these types projects can take advantage of the various financial support mechanisms intended to encourage energy efficiency. Renewable energy and cogeneration have preferential feed-in tariffs for the electricity generated, and in the right circumstances we can sell the carbon credits that are created by each project. This means that, quite separately from any moral and ethical questions, renewable energy and energy efficiency projects represent an excellent business opportunity.

## Cogeneration

There are many opportunities to make much more use of modern cogeneration in Bulgaria. It offers good energy efficiency and lower heat production costs for District Heating

Companies, and it also provides big cost savings industrial and commercial organisations that use both heat and electricity in large quantities.

Many industrial companies have very high energy costs, especially with the rising cost of gas. Small, dedicated cogeneration projects can be installed that will substantially reduce these energy costs, and in other countries in central Europe similar dedicated cogeneration plants have typically provided cost saving of more than 10% of total energy costs. Cogeneration works very well for industrial companies that have a continuous heat requirement, including process industries that run 24 hour operations such as food processing and breweries. But small cogeneration is also beneficial for some commercial buildings like sports centres, hospitals, shopping centres and similar.

### **How can cogeneration be financed?**

Small cogeneration plants typically achieve a straight payback of investment in about 4 or 5 years and loans can be repaid from the energy savings. However, some companies need to spend their money on developing their main business. and for those companies an Energy Services Contract with a cogeneration supplier may be the better option. There are companies who will install the plant at their own cost and sell the energy to the customer at a discounted price. This arrangement has the advantage of not needing any capital investment from the energy customer.

### **Renewable Energy Projects**

There are very many renewable energy projects being started in Bulgaria now. But the key to success is being able to raise the money to implement them. One problem is that many of these projects are too large for lending by Bulgarian banks, but too small for traditional project finance with international banks. Two UK companies have formed a joint venture company called Bulgarian Renewable Energy Company (BREC) to solve this problem, and are starting the development of groups of hydro power projects and wind projects in this way. BREC willing to work with local private companies, and also with Municipalities in a public/private partnership when appropriate.

### **Turning a good idea into an implemented project - The Project Development Process.**

The development process can be broken into three distinct phases.

- Feasibility study and business planning,
- Project development and financing,
- Implementation

A thorough and realistic commercial feasibility study is an essential first step. But many local project developers in this part of Europe do not do this properly. Both the host company and any potential investors need to be absolutely clear that the project makes commercial sense and that the development plan is realistic. The lack of a proper feasibility study makes projects unattractive to investors who are only willing to invest in a project that will succeed, and so it is essential to think through the development plan, and make sure we have identified all the risks involved. We must take care at this stage of a project. Wishful thinking does not equal success!

Detailed development follows when we are fully satisfied that the project is commercially realistic and can be financed. All of the contracts can then be negotiated, pricing agreed, and the financing confirmed.

Once all the detail and contracts are agreed, and financial closing has occurred – then we can build the plant. The easy bit!

### **Feasibility study and business plan.**

The feasibility study should answer all the vital commercial questions, not technical detail.

- Energy markets, today and forecast?
- Energy prices?
- What are the technical options and how has the preferred technical option been selected?
- Identify all of the capital costs – not just plant costs, but all development costs.
- How will the plant be operated and maintained?
- What will be the O&M costs?
- What will be the commercial structure, who will be the shareholders?
- What will the major contracts and what permits are required?
- How will the project be financed? – clarify at the very beginning
- Sales forecast and cash flow projection?
- Income forecasts and tax provisions – is it profitable?
- Risk assessment – essential but often not done.

With the project commercial feasibility shown to be positive, we can then prepare an investment proposal for discussion with investors and banks.

The investment proposal will show all of the information from the feasibility study but also include an earnings forecast for that investor taking into account the requirements of the local company/owner.

### **Attracting the right partner/investor.**

Investors see many project investment proposals from this part of Europe, and need to believe that the project is realistic. Many proposals simply do not include enough information to show that the project is realistic. For investors this is a serious problem. Investors and banks are cautious, and are therefore very selective. It is essential to present the project to potential investors in the most positive light possible.

The best way to do this is through a comprehensive investment proposal. The proposal needs to be written to answer the questions that the investor would otherwise ask and should contain the key data from the feasibility study and the business plan;

- A description of the Investment opportunity
- Realistic market information, including forecast energy prices,
- Capital, running and operating costs
- Financial assumptions and security structure
- The cash required and the timing of those cash commitments
- Expected rate of return
- Risk assessment and added value

It should be short and concise, but also clarify;

- What assets are you prepared to contribute, and
- What are you not prepared to lose control of

It should be a document written to

- Attract the Partner/Investor
- Stand out and “catch the eye”
- Show that the project is realistic and that the risks are reasonable.

### **Partner Selection**

Before starting to talk to co-investors or project partners its important to recognize that the investor will be an owner in the project, not just a lender. The investor will own shares in the project for as long as the project exists, not just until the debt is repaid. This means that the partnership is a marriage for the long term. Make sure there is a good match of objectives and that the chemistry works!

### **Working with the Partner.**

Once partners have been attracted and one preferred partner selected it is important to clarify the working arrangements with that partner. A Memorandum of Understanding is a useful place to start. The negotiation and signing of the MoU helps both parties to be clear about the objectives of each party and the agreed working arrangements. Investment partnerships are built on trust, and it is very important to build that trust into a strong relationship.

### **What should the host company do?**

The answer is, as much as possible. Assess your own strengths and capabilities. Decide what staff can be allocated to the tasks and what skills they have? What aspects do you need help with? Advice is readily available – use it. Sometimes Bulgarian entrepreneurs do not have the experience to be able to fully structure a project and need help. Project development and financing are new skills to be learned, so use experienced advice when necessary. However, you should also recognise that a foreign partner needs the host to stay involved, particularly with local issues such as gaining the necessary approvals and consents.

### **Structured Approach - Summary.**

There are many renewable energy and energy efficiency projects in this region that are ready to be implemented. These could be very successful projects, but progress is slow. Usually delays are because of the difficulty in raising the money, and because of the need to learn new skills in project development. It is essential to use a clear and structured approach to make projects attractive to investors and to make them finance-able.

Clarify objectives before starting the detailed work, and then;

- Prepare a realistic feasibility study and business plan – define what is to be done,

- Prepare the investment proposal – answer the difficult questions and make the deal attractive,
- Choose the partner with care – local or international. Take your time to choose wisely,
- Keep the project simple – too many partners, advisors, agents, consultants, etc., will make things very complicated, will drive up costs, and eventually may cause the project to fail.
- Get experienced help when needed, maybe from the bank, or from a group like EEI.
- Consider involving the multilateral banks – EBRD, IFC or other. They can be slow and very concerned about their internal procedures, but they are helpful and have specialist skills.

There has been a lot of talk of energy efficiency projects in recent years, but now there is both the need and the opportunity for action.

European Energy Investments (EEI) is actively developing projects in this region, and some examples of their work include a wind project in Bulgaria and a cogeneration project in Romania, both being financed by a Japanese investor after the full feasibility study and investment proposal are completed, several small cogeneration projects in Bulgaria being financed by a UK investor, groups of hydro and wind projects being developed by our joint venture company BREC, and another cogeneration project in Macedonia being financed with some local money plus a bank loan. All of these projects started with a detailed feasibility study as described in this article.

EEI is willing to help with other similar projects in Bulgaria, and can be contacted at [ianstanley@eei-ltd.com](mailto:ianstanley@eei-ltd.com)