

# ATLANTIC COUNCIL

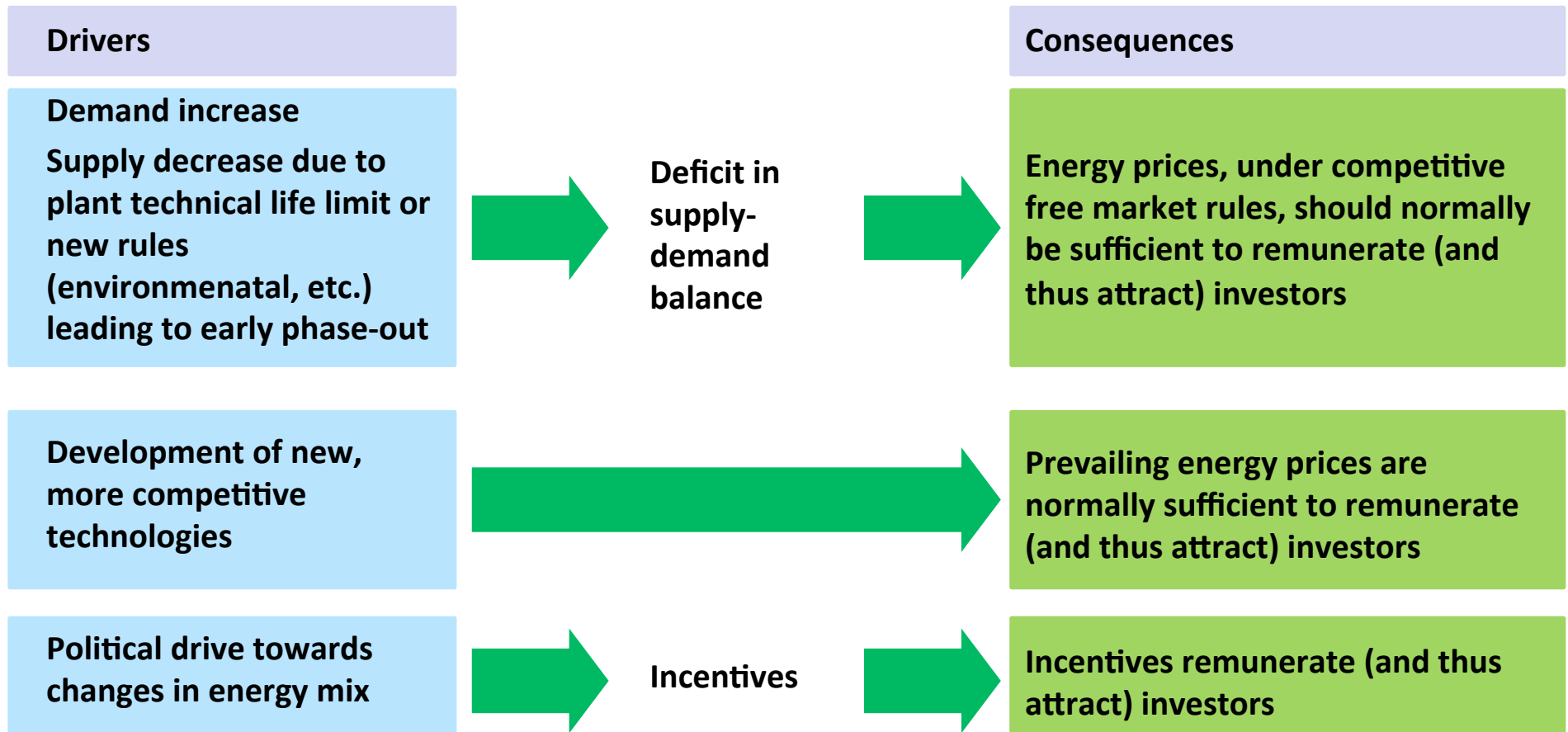
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# NEW INVESTMENTS IN POWER GENERATION IN LIBERALISED MARKETS

**Why and how are new investments in power generation «rationally» decided in liberalised markets:**



**Differences experienced in transition economies (but also in some developed economies):**

- ✓ **Markets are not liberalised, electricity prices are not set by market forces but rather administered;**
- ✓ **Typically, rationale for setting such administered price is to cover cash-cost of incumbent utility (normally, state-owned)**



**Energy prices are normally not sufficient to remunerate (and thus attract) investors. The infra-marginal rent which can be enjoyed by new, more competitive technologies does not normally cover new investment capital recovery and remuneration**

**In most EE and SEE Countries, transition phase to liberalised markets imply additional critical areas:**

- ✓ *No established/stable regulatory framework;*
- ✓ **No/very limited market track record;**

**Potential investors unable to make reliable predictions on price/market evolutions, which are key to investment decisions.**



**Stabilisation of business perspectives is essential for successfully attracting investors**

# OPTIONS FOR ATTRACTING INVESTMENTS

**Main options for attracting investments in East and South East Europe transition economies:**

**General**

**In EE and SEE**

**Acquisition**

**Privatisation**

**Greenfield**

**Brownfield  
(refurbishment,  
completion)**

# ACQUISITIONS/PRIVATISATIONS: MAIN RISKS AND POSSIBLE MITIGATIONS

## Risk

**Price formation risk**

**Regulatory Risk**

**Sovereign Risk**

## Mitigation

**Acquisition target size large enough to be essential for market stability**

**Strong partner (State) as minority co-shareholder**

**Sovereign Guarantees  
MLA involvement as risk-sharing partners**

# GREENFIELD/BROWNFIELD: MAIN RISKS AND POSSIBLE MITIGATIONS

Risk	Mitigation
Price formation risk	<ul style="list-style-type: none"><li>▪ <b>Power Purchase Agreement: very effective, easy to modulate in terms of volume/duration</b></li><li>▪ <b>Guaranteed access to export</b></li></ul>
Credit Risk	<ul style="list-style-type: none"><li>▪ <b>Reliable Off-taker</b></li><li>▪ <b>Government Undertakings in support of state entities</b></li></ul>
Regulatory Risk	<b>Strong Partners as co-shareholder(s)</b>
Sovereign Risk	<b>MLA(s), PRI, ECA(s) involvement</b>

### Areas of attention – the typical checklist:

- ✓ **Satisfactory legal framework/protection of foreign investments/possibility of international arbitration**
- ✓ **A common home: participation of host Country to Energy Charter/Energy Community/EU membership application**
- ✓ **Currency convertibility**
- ✓ **Possibility of US\$/€ denominated domestic transactions**



- **Greenfield/brownfield initiatives require complex project structuring, resulting in long lead times;**
- **Transition economies are often exposed to significant political movements and high politicisation of business decisions;**

**Initiatives with short implementation time (acquisitions, privatisations) have typically a higher completion rate than plant developments, e.g. Romania, Slovakia, Bulgaria**



**but above all...**

## When deciding about international investments:

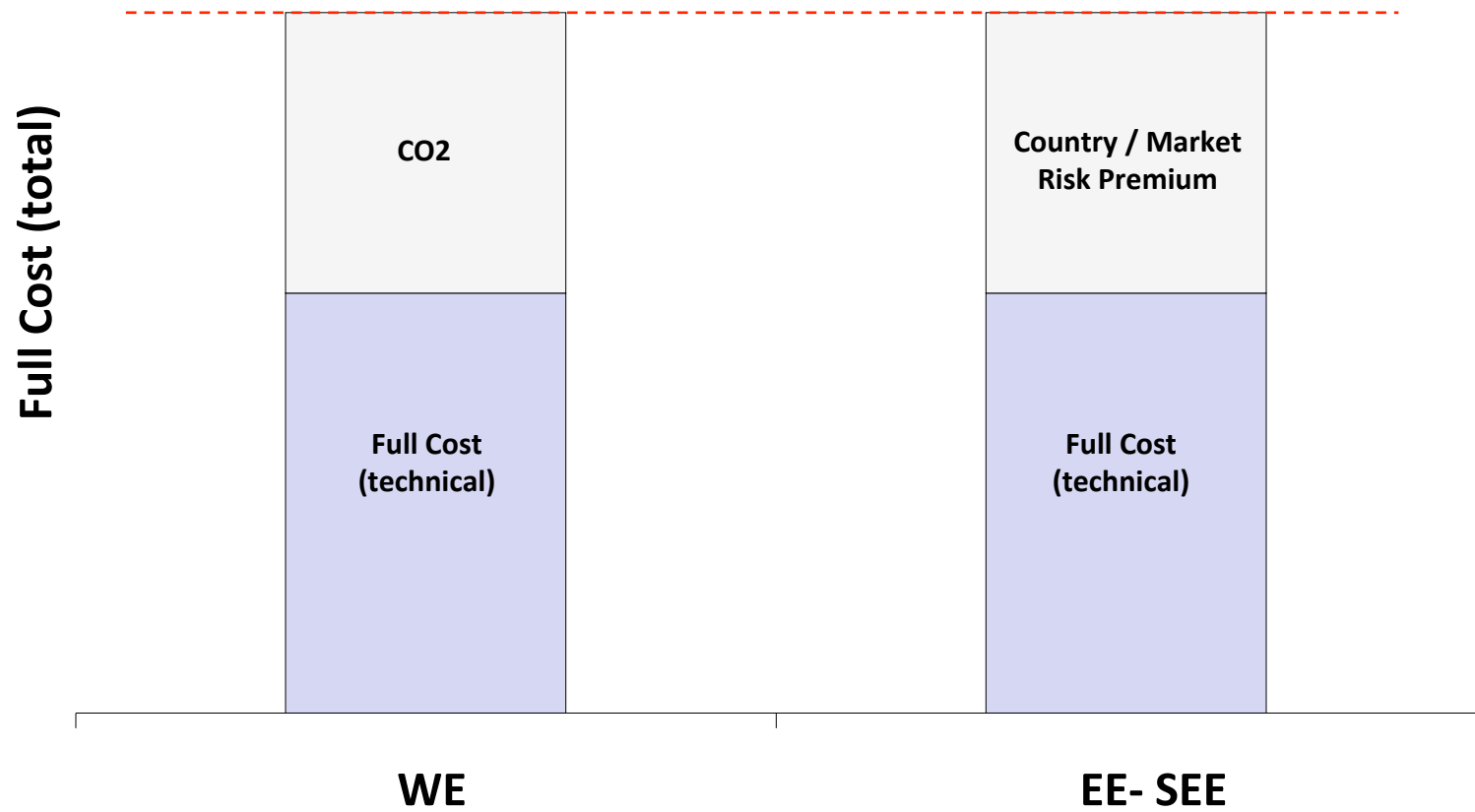
### ....DO your homework:

- ✓ Analyse carefully market dynamics – growth, demography, energy intensity, GDP perspectives;
- ✓ Concentrate on fundamentals, not (only) on regulatory framework or other contingent aspects;
- ✓ The regulatory framework is a sanity check, the target of international investments is growth;
- ✓ Growth is a very forgiving friend for investors: mistakes in a growing market will be easily absorbed; mistakes in a stagnant (or, even worse, declining) market are most likely fatal.

# WHICH TECHNOLOGY/FUEL FOR EE-SEE?

	Availability/ Security of Supply	Impact on balance of trade	Environmental Impact
Hydro	++ (SoS) ? (Av.)	+++	++
Natural Gas	--	---	+
Coal	+++	-/---	-
Lignite	?/+++	+++	-
Other RES	-	++	+++

# CO2 "MORATORIUM" FOR EE-SEE COUNTRIES?



***Thank you  
for your attention***

