



Promoting a private sector approach to sustainability

By Riccardo Puliti

Managing Director for Energy and Natural Resources, EBRD

It might be difficult to imagine that Mongolia, sitting on one of the world's largest reserves of coal, would bother investing in wind farms. And yet the country's first wind farm – and also the first private generator in the country – has just started producing electricity.

The world of energy changes daily. In this whirlwind climate, how can an institution like the EBRD formulate an energy policy for the next five years? The answer is by sticking to principles that will remain relevant, whatever the new energy fad, and being inventive in how we follow these principles.

In 2012, the WEC highlighted the “trilemma” facing the energy sector: security, affordability and sustainability of energy supply. A country needs to ensure a stable supply of energy at a price which keeps its citizens warm and its industries competitive, and which does not ruin the country or planet for their children. The EBRD's way of responding to this trilemma is rooted in our mandate: to promote market-oriented economies and private sector participation. We believe that private sector companies can find an optimal balance of security, affordability and sustainability, and in this article I will talk about EBRD-financed projects that demonstrate this balance.

But first, some words about the EBRD's energy portfolio and strategy.

Over the last seven years, the Bank has invested approximately €8.3 billion in the energy sector. Of this, €2 billion went to renewable energy generators, including the two largest wind farms in Turkey, the first ever wind farm in Mongolia, and recently the first solar project for the EBRD, near Vinnytsya in Ukraine. Under our Sustainable Energy Initiative we have invested over €11 billion since 2006, helping countless businesses and families save energy.

We also support smart distribution grids, transmission lines and generators, which are required to back up intermittent renewables. Under the Sustainable Energy Initiative we help raise energy efficiency and safety standards in the energy and other sectors.

We also always look for projects which will help our countries of operations diversify their energy supply; two examples are the financing of underground gas storage in Serbia, and the first Liquefied Natural Gas plant in emerging Europe, on Poland's Baltic coast.

Importantly, the EBRD is not only a financier, but also an enabler in the energy sector. We engage in policy dialogue and provide technical cooperation. For example, we supported Kazakhstan in developing its power market structure, legislation and framework conditions to incentivise renewable energy. We did similar work in Ukraine, where

we supported the drafting of legislation for renewable feed-in tariffs. In the Western Balkans the EBRD supported the development of a regional power market.

The new EBRD energy strategy will set out the Bank's role in the energy sector for the period 2014-18. It is clear that we will be operating in a new environment. Over the last several years we have seen significant policy shifts on nuclear energy right around the world, while we have seen dramatic growth in US unconventional oil and gas production. Climate change has become an ever more pressing concern, but CO₂

The EBRD invested in building Mongolia's first ever wind farm at Salkhit

Photos: Newcom



prices in carbon markets remain very low. The global growth of renewables has brought both innovation as well as technical challenges (including issues such as pricing, grid, reliability of supply and the legal environment). The global crisis has squeezed money for infrastructure. In this new reality we will provide even more support to private sector companies looking for solutions to the trilemma of security, sustainability and affordability.

All three of these issues are at play in Turkey. Imported hydrocarbons – on which this sixth largest energy market in Europe relies – lead to high electricity prices and a current account deficit. We believe the answer to that issue is more efficient use of fossil fuels and an increase in domestic renewables generation. A recent EBRD loan financed the building of a state-of-the-art CCGT (combined-cycle gas turbine) plant in Kirikkale, outside the capital, Ankara. The plant will use the newest technology, and will boast the lowest carbon emission factor of any fossil fuel power plant in Turkey, and among the best in the world. The project, which includes replacing some old lignite coal units, is expected to cut carbon emissions by 1.5 million tonnes of CO₂ annually. The plant will also be very flexible and will therefore have the capacity to support renewables generation.

Another excellent example of the private sector leading the way in finding an answer to the energy trilemma is Mongolia's first wind farm, Salkhit. The wind farm, located 70 km from Ulaanbaatar, went on-stream in June, and will eventually provide about five per cent of the country's electricity needs. To fully appreciate this achievement it needs to be understood that Mongolia has not built any new power generators for decades. Salkhit is not only the first commercial wind farm and the first privately owned power generator in Mongolia, but it is also the first generator of any kind that has been constructed since the fall of communism. The idea for the project was conceived by the local technology holding company, Newcom. The EBRD provided some early equity to the project, and last year it attracted an impressive US\$ 122 million from the Bank and other financiers for the construction of the massive wind farm. Mongolia is experiencing rapid growth, but it is starved for energy, which it must import,

with blackouts regularly affecting businesses and homes. The EBRD stands ready to support new power generation projects throughout the country.

And of course energy security is very important for the EBRD region, where countries are often tied to a single source of gas. When we financed the first LNG terminal in Poland – in fact the first LNG terminal in eastern Europe – the main goal was to enable Poland to diversify both the sources and routes of its gas supply (currently it gets about 70 per cent of its gas from Russia via pipelines). The terminal on the Baltic coast – a €700 million project to which the EBRD contributed €75 million equivalent in Polish zloty – will be able to re-gasify enough liquefied gas to supply 5 billion cubic metres per annum, or a third of the country's consumption. Over the past four years, the EBRD has also consistently worked on energy security issues in eastern Europe, and has invested more than €600 million in strategic underground gas storage and distribution in the region.

It can be seen that the EBRD has found many different ways to support private sector companies as well as governments in finding the best possible answer to the energy trilemma. Our new energy strategy will define further ways for us to continue this work in the ever-changing energy environment. □

Finished in 2013, Salkhit will provide 5 per cent of Mongolia's electricity

